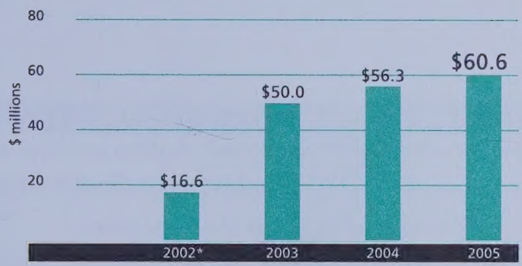
710 MW

Calpine Power Income Fund Annual Report 2005

Calpine Power Income fund

The Calpine Power Income Fund is an investment trust for investors seeking to participate in North America's fast-growing independent power generation sector while receiving stable cash flow distributions. The Fund's objective is to provide a stable and sustainable flow of cash distributions to its unitholders. Power generation assets that the Fund has interests in are all modern and environmentally preferred, natural gas fired facilities located in British Columbia, Alberta, Ontario and California. Headquartered in Calgary, Alberta, the Fund is managed and administrated by Calpine Canada Power Ltd. and is traded on the Toronto Stock Exchange under the symbol CF.UN.

Contents



Total Annual Cash Distributions

* *only 4 months of operation in 2002*

2005

DELIVERING STRONG FINANCIAL RESULTS TO INVESTORS

2005 HIGHLIGHTS FROM THE CALPINE POWER INCOME FUND

- In 2005, the Fund generated distributable cash of $60.6 million, $0.9816 per unit, for distribution to unitholders.
- Since its start in 2002, the Fund has achieved a per unit cash distribution increase from $0.935 to $0.9816 in 2004 – an increase of over 5%.
- In 2005, cash from operations was $54.5 million compared to $61.9 million in 2004.
- The Partnership added $6.3 million to its major maintenance reserve, ensuring future maintenance activity is funded before any work starts.

The Calpine Power Income Fund's assets are modern, gas-fired, electric power generation facilities. All of the Fund's facilities are either combined cycle or cogeneration power plants utilizing the most modern generation technology to produce power and steam.

The Fund's manager continuously seeks to optimize the operations and maximize the efficiency of all assets, thus improving asset profitability and improving opportunities to enhance distributions to unitholders.

All assets are operated utilizing the expertise, experience and involvement of the Fund's sponsor, Calpine Corporation, who has nearly 27,000 MW's of generation capacity throughout North America. Calpine provides expertise and involvement in all aspects of power generation operations and maintenance to each of the Fund's assets. In 2005, the Fund added over $6 million to its major maintenance reserve, ensuring future maintenance activity is fully funded before any work starts.

The Fund's assets continue to perform exceptionally well, with levels of availability averaging over 97%. The Fund will continue to pursue growth through disciplined review of asset acquisition opportunities that meet the Fund's strict criteria for operational excellence and stability of cash distributions.

Financial	2005	2004	2003 (1) (2)
Calpine Power Income Fund			
Total Revenue	$ 68,468	$ 68,325	$ 41,390
Net Earnings	47,194	46,864	38,527
Net Earnings Per Trust Unit	0.7644	0.8074	0.7409
Weighted Average Number of Trust Units Outstanding	61,742,288	58,042,861	52,001,351
Total Assets	681,697	691,264	492,819
Total Long-term Liabilities	79,844	88,877	–
Distributions Declared Per Trust Unit	0.9816	0.9620	0.9620
Calpine Power, L.P.			
Total Revenue	$ 116,099	$ 105,346	$ 91,348
Net Earnings	58,356	64,012	58,742
Net Earnings Per Class A Priority Unit	0.8080	0.8795	0.7956
Net Earnings Per Class B Subordinated Unit	0.7331	0.8201	0.7795
Total Assets	635,002	660,229	665,407
Total Long-term Liabilities	2,570	2,369	2,183
Distributions Declared			
Per Class A Priority Unit	1.0200	1.0350	1.0226
Per Class B Subordinated Unit	0.9347	0.9715	0.9935

(1) A special distribution of $0.02 per Trust Unit was declared in September 2003.
(2) A special distribution of $0.0165 per Trust Unit was declared in January 2003.

Operations	Availability		Generation (MWh)	
	2005	2004	2005	2004
Calgary Energy Centre	98%	92%	318,594	858,662
Island Cogeneration Facility	97%	84%	2,042,824	1,628,402
Whitby Cogeneration Facility	96%	96%	337,281	368,172
King City Facility (1)	86%	98%	794,591	596,254

(1) Acquired May 19, 2004 – availability and generation from date of acquisition only.

MESSAGE TO UNITHOLDERS

The objective of the Calpine Power Income Fund is to deliver to investors a consistent and sustainable cash distribution stream from its power generating facilities. We accomplished this in 2005 with strong operating results, enabling us to deliver over $61 million in cash distributions to our more than 20,000 unitholders. Through the dedication of our employees and partners our plants operated at high levels of availability and production and we finished the year in a strong cash position. However the financial situation of our sponsor, Calpine Corporation and certain of its subsidiaries, including the Manager, has affected us and created uncertainty as we move forward into 2006 and beyond. I want to take you through some of the continuing strengths of our Fund, which are considerable, but also outline some of the challenges we face, particularly with Calpine and the Manager's financial situation.

PLANT PERFORMANCE All of our plants operated at high levels of availability, averaging over 90% for the year and we met or exceeded all of our operating targets. Operating and maintenance expenses at the facilities were all at or below budget. This high availability coupled with very few operating concerns and high capacity levels helped us to exceed our overall financial targets.

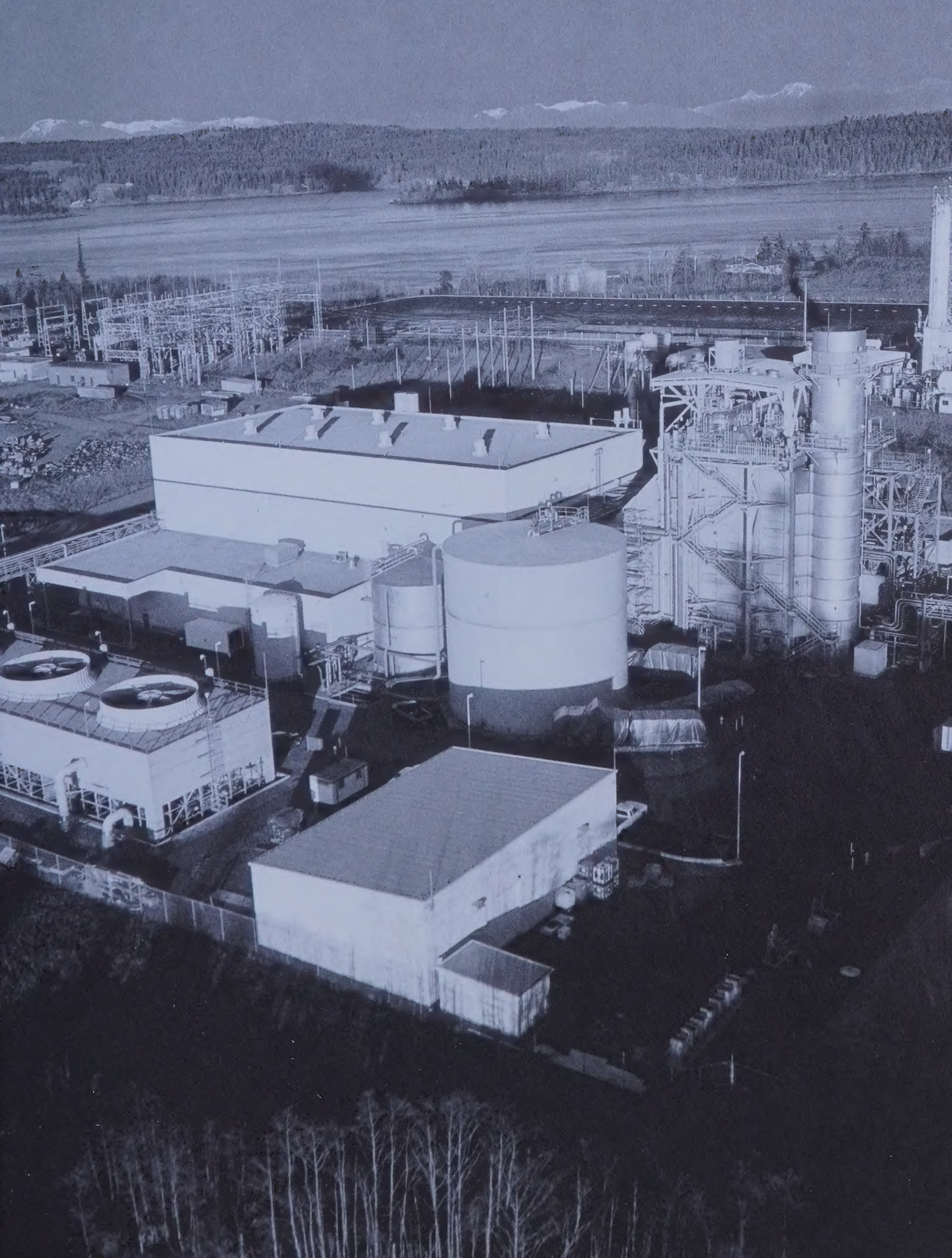
We had our first full year of operations from our Island Cogen facility, following the upgrade and 25 MW capacity addition in 2004. We have seen the clear benefits to the Fund of this upgrade and are continuing to explore other opportunities to maximize revenue from this facility through additional upgrades and enhancements. The plant is now operating at its maximum tranche 1 level for power sales to BC Hydro and has performed at high levels of availability, resulting in increased power revenues. Strong gas prices in 2005 have resulted in higher revenues from steam sales to Catalyst Paper (formerly Norske Skog). The Calgary facility also operated at very high levels of availability in 2005, and the plant made a significant contribution to our financial results.

We have now had a full year of operations from the King City facility acquired in May 2004 and this plant has also met all operational expectations. We completed the implementation of the QF mitigation plan for the King City Facility with the construction of the water distillation facility at the plant and received recertification from the federal regulator for use of the thermal energy from the plant. This is a significant milestone that ensures the King City plant maintains its QF status and continues to make a contribution to our financial results. Operationally, Whitby Cogen facility also performed very well and met all financial expectations. The facility capitalized on last year's high natural gas prices by selling gas at times during the year rather than producing power. This has resulted in additional contribution to our overall financial results.

Island Cogeneration Plant

240 MW

- Located near Campbell River, British Columbia
- Generation capacity of up to 240 MW
- Sells electricity to BC Hydro, with power purchase agreement to 2022
- Steam sale agreement until 2022 with host Catalyst Paper
- Alstom GT24 gas turbine and Alstom steam turbine



Calpine's Financial Issues When Calpine Corporation filed for Chapter 11 bankruptcy protection in the United States in December, the Manager and Calpine Energy Services Canada Partnership also filed for similar protection in Canada under the Companies' Creditors Arrangement Act ("CCAA"). This has resulted in a number of issues that concern the Fund including financial issues. Continued payment by the Manager on the loan made by Calpine Commercial Trust is important to ensure continued cash distributions to unitholders and to provide increases in our cash reserves. Although the Manager has continued to meet the required payments under the loan, there is no guarantee that it will continue to do so. The Fund benefits both from its security interest in the Manager's B units held in Calpine Power L.P. and from the limited recourse guarantee given by Calpine King City Cogen LLC (a Calpine subsidiary) to Calpine Commercial Trust. However the Fund cannot currently enforce these obligations against the Manager since a stay on taking any actions has been imposed by the Courts in Canada. The guarantor has not filed for Chapter 11 protection and a claim could conceivably be made against the guarantor. Until these US and Canadian restructuring proceedings are completed, we will not know the overall impact on the Fund.

Calpine Energy Services Canada Partnership (CESCP) defaulted on its obligations to Calpine Power, L.P. under the Calgary Tolling Agreement when CESCP did not pay the required tolling fee on January 16, 2006 and repudiated the agreement. Although CESCP subsequently did pay a portion of the moneys owed, Calpine Power, L.P. is still in a shortfall and this did affect our financial results in 2005. The Manager was able to put in place a short term agreement with EPCOR Merchant and Capital, L.P. on February 16 to toll the capacity of the Calgary facility until June 30. Although the tolling charges are significantly lower than the original tolling charges, the monies received will help alleviate any shortfall as a result of the repudiation by CESCP. Calpine Power, L.P. intends to make a claim for damages against CESCP as a result of the repudiation.

Although Calpine King City Cogen LLC did not file for bankruptcy protection in the US, the filing by Calpine Corporation did result in the possibility of two loan events of default by the Fund subsidiary King City LP with its third party lender. The Fund was able to protect its position and reached agreements with Calpine and the third party lender that ensured that no action would be taken against the King City assets as a result of the filing by Calpine Corporation. Calpine King City Cogen LLC continues as Lessee and operator of King City and the third party lender did not take any action to replace Calpine as operator of that facility.

Calpine Canada Whitby Holdings Company, which pays the Whitby Loan to Calpine Power L.P., did not file for protection under CCAA and has continued to meet its obligations under that loan. However, CCWHC also owes moneys to Calpine Canada Power Ltd. under an intercorporate loan, which the Manager believes is subordinate to the Whitby Loan and will not be repaid until the Whitby Loan is fully repaid. This intercorporate loan was not formally documented and although

50 MW

Whitby Cogeneration Plant

- *Located in Whitby, Ontario*
- *50 MW generation capacity*
- *The Fund's interest in Whitby is through a participating loan*
- *Sells electricity to Ontario Electricity Financial Corporation, with contract to 2018*
- *Sells steam to Whitby steam host with contract to 2019*
- *Rolls-Royce Trent gas turbine*

Cumulative Cash Distributions per Unit (since inception)

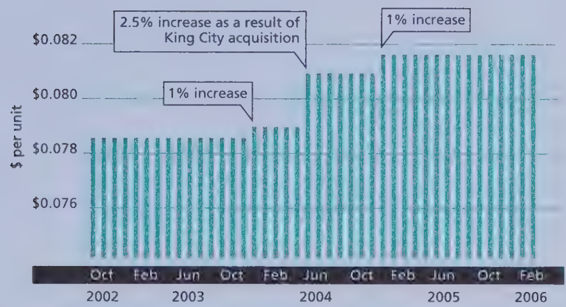
Calpine Canada Power Ltd. has advised the Partnership that it intends to put in place formal documentation to evidence the subordination in favour of the Whitby Loan, this documentation will require Court recognition because of the CCAA filing by Calpine Canada Power Ltd.

The filing by the Manager for protection under CCAA was also an event of default under the various management and operating agreements that the Manager has with the Fund and its subsidiaries. Although the Manager continues in its roles to both manage and administer the Fund and operate the Calgary and Island facilities, how those roles continue will be made clear as the Manager moves through its CCAA process.

The Fund has been affected by these developments. Although we continued to make all of our targeted cash distributions in 2005, our unit price dropped quite significantly at the end of the year. Although the unit price has since recovered, continuing uncertainty related to Calpine and the Manager may result in unit price volatility and the expected continuing reduction in tolling revenue from the Calgary Energy Centre, which is a main source of revenue for the Fund, may affect financial performance.

MOVING FORWARD With all of these challenges, what should unitholders expect from the Fund? Our goals continue to be to maintain stable and sustainable cash distributions and to improve overall unitholder return. To achieve these goals we need to ensure that we continue our excellent track record in operating our assets and reduce the overall risk profile in our asset base and find ways to maintain and increase cash distributions from existing or new assets.

Our plant staff continues to operate our plants at the highest standards and we are proud of their accomplishments. Our health and safety record at our facilities is excellent with no lost time accidents at any of our facilities in over 3 years. The plant performance statistics demonstrate the commitment made by our operating teams to ensure maximum productivity is achieved from our assets. Our staff devote many hours each year to ensure that they remain highly trained with the latest knowledge and skills. We continue to be supported by Calpine Corporation from its operations base in California to bring the wealth of knowledge and experience of operating over 92 plants throughout North America to the operation of our facilities.



Increase in Monthly Distributions per Unit

We intend to focus on reducing the risk profile of our assets. This can be achieved in a number of ways. Securing financially stronger customers and buyers of our power should result in a lower risk profile – this is particularly true for the Calgary Energy Centre. We are currently marketing the tolling capacity of the Calgary Energy Centre and hope to put in place a replacement long-term tolling agreement with a high quality customer starting July 1, 2006. This will improve the overall credit quality of our offtakers significantly from where we were last year, where a Calpine subsidiary was the tolling party of the Calgary Energy Centre.

We need to continue to explore acquiring additional assets for our Fund, without limiting ourselves to any particular fuel source or market. That means looking beyond natural gas fired assets when other alternatives present themselves. We currently operate or own interests in assets that operate in four different markets and must be open to the opportunities that exist in both current and new markets. This will be a challenge as the market for high quality assets of any sort with long-term off-take contracts is very competitive. Other opportunities may include development of assets and we will be evaluating opportunities as and when they develop.

However, accretive growth opportunities are difficult to find and implement. In order to be competitive when buying revenue generating assets, we have to work hard to have the best price and bid. Requirements for accretion to existing unitholders makes that process more challenging. As the Fund gets more unitholders that challenge is even greater. That is why we are not focusing on accretion as our number one priority. Although important, the primary focus will be on adding those assets that make the greatest contribution to lowering our overall risk profile with the anticipated impact of adding to unitholder value by unit price increases, without reducing current cash distributions.

We also need to focus on increasing cash distributions in other ways, by enhancing our existing assets and finding opportunities to increase cash from operations. Enhancing assets can be done by improving our existing operations and finding ways to do things better, or by identifying opportunities like the Island upgrade completed in 2004. New equipment and designs can increase cash from operations by increasing capacity and availability factors. We can also reduce costs by improving efficiencies or lowering operating and maintenance costs. These are the areas that we have to focus

on. Our first Island upgrade resulted in an extra 25 MW of capacity from the plant, improved heat rate and higher availability factors. This added an additional $4 million of cash from operations in 2005, before debt costs from the plant. We are working with the manufacturer of the plant, Alstom Power, and looking at other upgrades at the facility that might also make a significant contribution to increasing cash from operations and hope to be able to report to our unitholders on progress that we make throughout the year on this front.

OUTLOOK We've had a challenging start to 2006. We ended 2005 however, on a solid financial footing and look for continued operational success at our plants as we move forward. The Fund benefited from the structural protections put in place when it was formed in 2002. Although the situation with Calpine and the repudiation of the Calgary tolling agreement in January is clearly a challenge, we have managed to maintain our cash distributions in 2006 at last year's levels and to date continue to prudently add to our maintenance reserves. We expect to make progress on our efforts to replace the tolling agreement with a new long-term contract and will report on our efforts as events unfold.

We are proud of the achievements that we realized last year and look forward to delivering another year of solid operational results. We have to work through the challenges faced by the financial situation of Calpine. Your management team understands these challenges and is focused on delivering on its promises. Our strong asset base will help us achieve our goals. The contribution made by our independent trustees has been significant and we thank them for their understanding and diligence as we work though the issues that face us. The dedication by our employees to the Fund during the past year and particularly the last few months has been tremendous and this dedication has positioned us to implement our long-term strategy and make our Fund stronger.

The strength of our Fund is seen by its ability to maintain unitholder value and build on opportunities, even when faced with difficult challenges. We are committed to maintaining the stability of the Fund and improving on these strengths and look forward to reporting to you throughout the year on our progress.

Toby Austin
President and Chief Executive Officer
April 19, 2006

King City Energy Centre

120 MW

- Located in King City, California
- Generation capacity of up to 120 MW
- Capacity and energy revenues from the sale of electricity to Pacific Gas and Electric Company, with a power-purchase agreement extending until 2019
- Long-term steam sales agreement to 2019 with [illegible] Foods, an affiliate of Conagra Foods Inc.
- General Electric 7EA combustion turbine and Alstom steam turbine

Eth

CORPORATE GOVERNANCE Strong management and corporate governance are an essential element of the continued growth and performance of the Calpine Power Income Fund. The Fund was founded on a commitment to corporate governance, using Toronto Stock Exchange guidelines for effective corporate governance since its inception.

A majority of the Fund's board of trustees are independent from the sponsor (five out of eight possible Trustees). The Fund's Audit Committee and Corporate Governance Committee are composed entirely of independent board members, ensuring that our public investors' interests are always addressed. The Corporate Governance Committee annually reviews and assesses the adequacy of the Fund's Corporate Governance Guidelines and the Manager's Code of Conduct. The Committee assists the Trustees in adopting and maintaining high standards of corporate governance and business ethics. Corporate policies on disclosure and insider trading are in place, and a formal code of conduct has been adopted.

ENVIRONMENTAL RESPONSIBILITY Not only do the Fund's assets continue to produce strong and reliable operating results, they do so in an environmentally-preferred way.

All of the Fund's assets generate electricity using highly efficient combined cycle or cogeneration processes. In the cogeneration process, waste heat from the combustion turbine is further used to produce steam for neighboring industrial facilities. In combined cycle, the waste heat is recycled to generate additional steam to produce more electricity through a steam turbine. Both of these processes can reduce fuel consumption by up to 30% to 40% compared to aging oil and gas-fired plants.

The high fuel-efficiency of these generation technologies results in low emissions-intensity compared to other thermal generation technologies. For example, compared to coal technology, these types of facilities produce approximately 60% fewer carbon dioxide emissions (a precursor to global warming) and up to 90% fewer nitrogen oxide emissions (a precursor to smog and acid rain).

SOCIAL RESPONSIBILITY The Fund's management continues to recognize the important role each asset plays in the community where it operates. Beyond providing electricity that is the economic and social foundation of so many homes and businesses, each asset consistently contributes to organizations that enhance the overall quality of life in those communities. From local high-school scholarship programs, adopt-a-family programs, contributions to local hospitals and food banks, and contributions to numerous youth clubs and organizations – the Fund's assets are supporting local communities and ensuring positive community relations work hand-in-hand with their strong operations.

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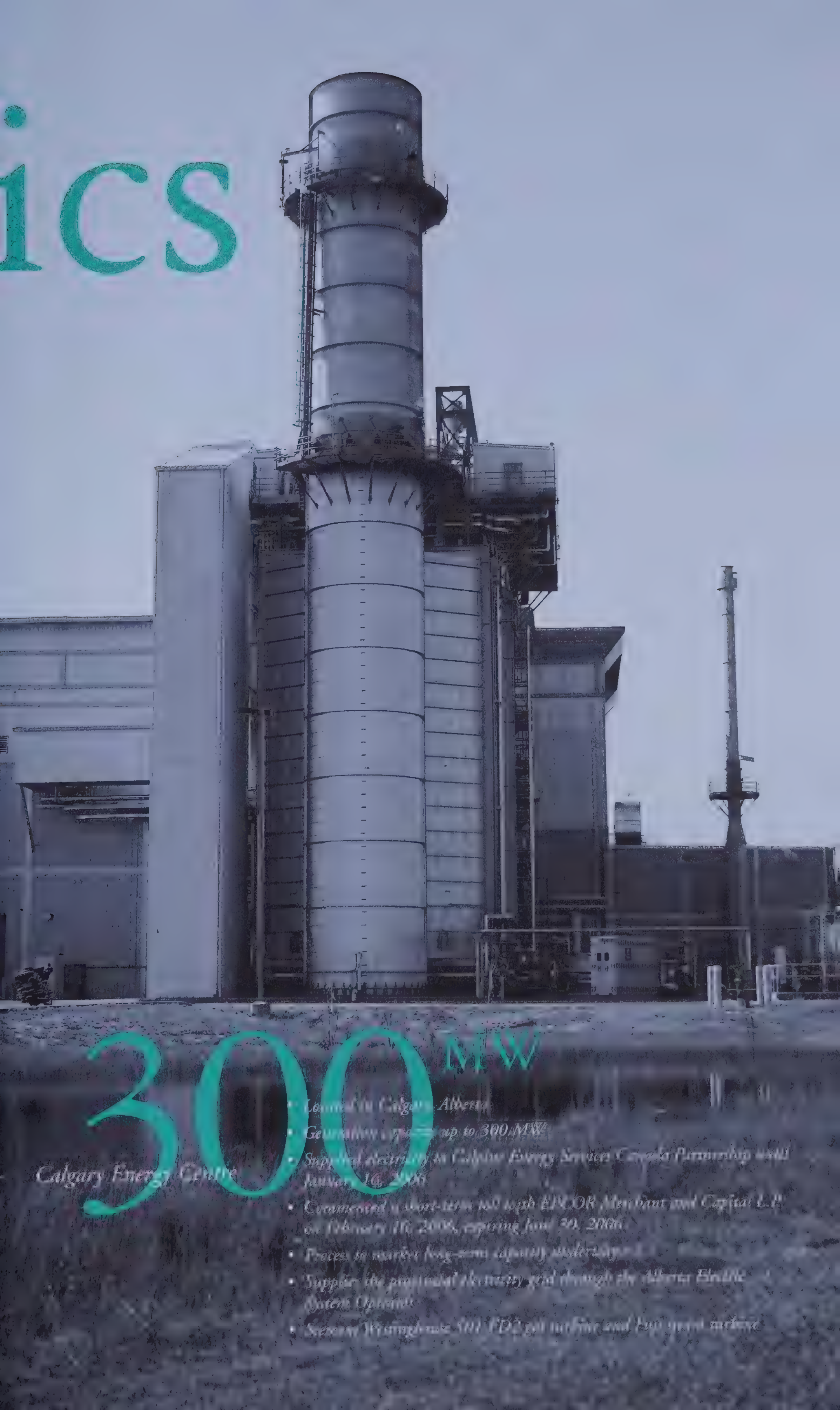

300 MW

Calgary Energy Centre

- Located in Calgary, Alberta
- Generation capacity up to 300 MW
- Supplied electricity to Calpine Energy Services Canada Partnership until January 16, 2006
- Commenced a short-term toll with EPCOR Merchant and Capital L.P. on February 16, 2006, expiring June 30, 2006
- Process to market long-term capacity undertaken
- Supplies the provincial electricity grid through the Alberta Electric System Operator
- Siemens Westinghouse 501 FD2 gas turbine and [illegible] steam turbine

Management's Discussion and Analysis

Calpine Power Income Fund

Calpine Power, L.P.

MD&A

Advisory – Certain information set forth in this document, including management's assessment of the Fund's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risks associated with electricity production, marketing, and transportation such as loss of market, volatility of prices, currency fluctuations, environmental risks, competition from other electricity producers and ability to access sufficient capital from internal and external sources; as a consequence actual results may differ materially from those anticipated in the forward-looking statements.

Management's Discussion and Analysis

FORWARD-LOOKING INFORMATION

Certain information in the President's Message and this Management's Discussion and Analysis is forward-looking and subject to risks and uncertainties. All the forward-looking statements are based upon the Manager's beliefs and assumptions based on information available at the time the assumption was made. By its nature, such forward-looking statements are subject to various risks and uncertainties. The results or events predicted in the forward-looking statements may differ from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include, among other things, the ability of the Fund and the Partnership to successfully implement the Fund's strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, competitive factors in the power industry, and the prevailing economic conditions in North America. Additionally, actual results or events predicted in the forward-looking statements will be affected by the outcome of the voluntary reorganization filings in Canada and the United States by Calpine and certain of its subsidiaries, having contracts with the Fund and its subsidiaries or investees, as well as other factors identified herein. The material assumptions in making these forward-looking statements are disclosed in the President's Message and the MD&A, including in the MD&A under the headings "Outlook" and "Business Risks". Readers are cautioned not to place undue reliance on this forward-looking information. The Fund and the Partnership each disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The Calpine Power Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of Alberta. Through its 70% ownership interest in Calpine Power, L.P. (the "Partnership"), the Fund indirectly owns interests in power generating facilities in British Columbia, Alberta and an economic interest in a power plant in Ontario. In addition, the Fund owns a power generating facility in California and holds a promissory note issued by Calpine Canada Power Ltd. ("the Manager"). The power generation facilities owned by the Fund and the Partnership are all modern and environmentally preferred, natural gas fired plants. The Fund and the Partnership are managed and administrated by the Manager.

The Fund's objective is to provide, on a per Trust Unit basis, a stable and sustainable flow of Distributable Cash of the Fund. To achieve this objective, the Manager seeks to maximize the efficiency and profitability of the facilities and acquire or develop future facilities in accordance with established acquisition and investment guidelines.

The following discussion and analysis as provided by Management should be read in conjunction with the accompanying audited consolidated financial statements and the notes thereto of the Fund and the Partnership for the years ended December 31, 2005 and 2004, which have been prepared in accordance with Canadian generally accepted accounting principles, and is based on information to April 19, 2006. All dollar amounts are shown in Canadian dollars unless otherwise specified. Additional information concerning the Fund is available at www.calpinepif.com or on SEDAR at www.sedar.com.

2005 HIGHLIGHTS

- The Fund declared distributions of $0.9816 per Trust Unit to Unitholders during 2005 compared to $0.9620 per Trust Unit in 2004.
- The Fund's and Partnership's power generation facilities continued their strong and reliable operating performance in 2005 as demonstrated below.

	Availability		Generation (MWh)	
	2005	2004	2005	2004
Calgary Energy Centre	98%	92%	318,594	858,662
Island Cogeneration Facility	97%	84%	2,042,824	1,628,402
Whitby Cogeneration Facility	96%	96%	337,281	368,172
King City Facility (1)	86%	98%	794,591	596,254

(1) Acquired May 19, 2004 – availability and generation factors are from date of acquisition only.

- At December 31, 2005, the Fund had 61,742,288 Trust Units outstanding which trade on the Toronto Stock Exchange and none of which are owned by Calpine Corporation ("Calpine"), directly or indirectly.

SIGNIFICANT EVENTS

Calpine Credit Event

On December 20, 2005 Calpine and certain subsidiaries and affiliates filed for voluntary reorganization under Chapter 11 of the US Bankruptcy Code ("US Filing") and certain subsidiaries and affiliates of Calpine in Canada filed for voluntary reorganization under the Companies' Creditors Arrangement Act ("CCAA") in Canada. Calpine Canada Power Ltd., the Manager, manages and administers both the Fund and Partnership and operates the Island Facility and Calgary Energy Centre. The Manager and Calpine Energy Services Canada Partnership ("CESCP") are among the Canadian subsidiaries of Calpine that filed under the CCAA.

On December 20, 2005, the Court of Queen's Bench of Alberta (the "Court") issued an initial order (the "Initial Order") under the CCAA. Pursuant to the Initial Order, among other things, until a specified date (which has been extended to July 20, 2006): (a) commencement or prosecution of legal proceedings against applicable Canadian subsidiaries of Calpine (including the Manager and CESCP), is stayed and suspended, without the consent of the applicable subsidiary and Ernst & Young Inc., as monitor (the "Monitor") or leave of the Court; and (b) exercise of certain contractual rights against such subsidiaries (including contractual termination rights) is stayed and restrained, again without the consent of the applicable subsidiary and the Monitor or leave of the Court. The Initial order permits the affected Calpine Canadian subsidiaries to continue to carry on business, subject to the terms of the Initial Order and the supervision of the Monitor and the Court. The Initial Order also provides for an intercompany lenders charge, an administrative charge and a directors and officers charge, which may, among other things, permit certain fees and expenses incurred by the Manager to rank ahead of security provided by the Manager in respect of the Manager Loan (as defined below).

Pursuant to the US Filing, the Calpine debtors will remain in possession of their property and will continue to operate their businesses unless a trustee is appointed. Further, under the US Bankruptcy Code, the Calpine debtors are granted certain protection against creditors. For example, pursuant to the automatic stay arising under section 362 of the US Bankruptcy Code, creditors may not contact a debtor to demand repayment, take action against a debtor to collect money owed, take property of a debtor, or start or continue foreclosure actions or repossessions.

In addition, at December 31, 2005, the Manager owed $32.2 million (the "Manager Loan") to Calpine Commercial Trust, ("CCT"), a wholly owned subsidiary of the Fund, under the terms of a full recourse six year loan that originated in 2004 in conjunction with the King City acquisition described further below. As the Manager has filed under CCAA, an event of default has occurred under the terms of the Manager Loan. Management estimates the loan to be fully collectible based upon the guarantee and security in place, subject to lifting of the stay of proceedings against the Manager.

CESCP was the counterparty to a tolling agreement with the Partnership whereby the Calgary Energy Centre earned revenue through monthly payments from CESCP in exchange for providing the full operating capacity of the plant (the "Tolling Agreement"). CESCP did not make its December 2005 toll payment as required by the Tolling Agreement on January 16, 2006 and advised on that date that it had repudiated the Tolling Agreement. On February 15, 2006, CESCP paid tolling revenues to the Partnership applicable to the period from the date of filing for CCAA protection to the date of repudiation. On February 16, 2006 the Partnership announced it had commenced a short-term tolling arrangement with EPCOR Merchant and Capital L.P. ("EPCOR") which is scheduled to provide tolling revenue to the Partnership until June 30, 2006. The short-term toll is at a level significantly lower than the repudiated Tolling Agreement, reflecting current Alberta market conditions. This reduction in tolling revenue of the Partnership significantly reduces future cash available to make distributions to the limited partners of the Partnership. The Partnership and the Manager have commenced a process to re-market the generation capacity of the Calgary Energy Centre on a long-term basis. The Partnership will be seeking damages from CESCP and Calpine which guaranteed the obligations of CESCP under the Tolling Agreement, for the non-performance and repudiation of the Tolling Agreement, the amount of which and value to be realized are yet to be determined and are subject to the stay of proceedings currently in place in relation to CESCP in the CCAA proceedings and the automatic stay in effect in relation to Calpine in the Chapter 11 proceedings.

Two other subsidiaries of Calpine that are central to the Fund were not applicants in the reorganization proceedings. These are Calpine King City Cogen LLC ("Calpine King City" or the "Lessee"), which leases the King City Facility from a subsidiary of the Fund (the "Lessor") pursuant to a long-term lease (the "Lease"), and Calpine Canada Whitby Holdings Company ("CCWHC") which owns a 50% interest in the Whitby power plant in Ontario and is the counterparty to a loan held by the Partnership ("the Whitby Loan").

While Calpine King City was not an applicant in the reorganization proceedings, the Chapter 11 proceedings initiated by Calpine could have caused an event of default occurring under the Lease and the Lessor's non-recourse loan facility totaling US$79.7 million at December 31, 2005

relating to the King City Facility (the "King City Loan"). To remedy and prevent this potential default under the King City Loan, cash or a letter of credit for US$20 million ("Acceptable Credit Assurance") needed to be provided to the Lender of the King City Loan. On January 19, 2006, all parties reached an agreement whereby the Lessee agreed to cause approximately US$11.7 million of its cash flow to be held in a depositary account as Acceptable Credit Assurance and applied if required to make certain specified payments to the Lender. The Lessee also agreed that future cash flows would be added to this depositary account until aggregate deposits total US$20 million. The Lender agreed that these Lessee arrangements would satisfy the Acceptable Credit Assurance obligation and avoid any event of default on the King City Loan, as long as the Lessee meets its obligations under such arrangements. Should the Lessee fail to perform its obligations in connection with the provision of such Acceptable Credit Assurance, the Lessor shall have a remedy period to deliver Acceptable Credit Assurance.

A second potential event of default under the Lease and consequential possible event of default under the King City Loan arises from the Chapter 11 proceedings initiated by Calpine and Calpine's role as operator of the King City Facility. To prevent these potential events of default, the Lessee has the right to replace the operator within a specified period, subject to the consent of the Lender and the Lessor and satisfying certain other requirements in the Lease. Further, each of the Lessor and the Lender has a similar right to replace the operator. The Lender has entered into a Forbearance Agreement pursuant to which it has agreed not to take any enforcement action under the Lease and Loan agreements by virtue of Calpine being included in the Chapter 11 proceedings, provided the operating and maintenance agreement remains in effect, Calpine continues to meet its obligations thereunder, Lessee is not included in a bankruptcy proceeding and no other defaults exist. The Forbearance Agreement expires January 1, 2007. Should this event of default under the Lease fail to be avoided or remedied prior to the expiration of the Forbearance Agreement, an event of default could occur under the King City Loan that permits the Lender to accelerate the payment obligations under the King City Loan and to foreclose the interest of the Lessor in the King City Facility. Negotiations are currently underway between the Lessee, the Lessor and the Lender to prevent these events of default, but have not been resolved as at the date of release of the financial statements. Based on these negotiations the Manager believes that the forbearance period will be extended or that an agreement will be entered into to avoid the occurrence of an event of default under the Lease and King City Loan.

CCWHC was not an applicant in the December 20, 2005 filing for CCAA protection. Calpine Canada Power Ltd. has advised the Fund of its understanding that there is an intercompany loan of approximately $32.7 million payable by CCWHC to Calpine Canada Power Ltd., the terms of which have not been formally documented at December 31, 2005. Calpine Canada Power Ltd. also advised that Calpine Canada Power Ltd. has considered the intercompany loan to be subordinated to the Whitby Loan and does not expect repayment of the intercompany

loan until the Whitby Loan has been paid in full. Calpine Canada Power Ltd. intends to document this subordination through a written agreement; however, such a written agreement is subject to recognition of the Court under the CCAA process to which Calpine Canada Power Ltd. is subject. An application to the Court is expected in the second quarter of 2006. Should the Court fail to recognize the subordination and should Calpine Canada Power Ltd. demand payment of the intercompany loan as a result of its CCAA proceedings, the timing and ultimate collection of the Whitby Loan would be negatively impacted. Accordingly, an allowance of approximately $16 million against the Whitby Loan has been accrued at December 31, 2005 in the Fund's financial statements for this potential impairment. Should the Court recognize the subordination, the Manager estimates that the Whitby Loan would be fully collectible and the allowance for potential impairment would be reversed at that time.

King City Acquisition

On May 19, 2004, a subsidiary of the Fund (the "Lessor") acquired a 120 MW natural gas-fired, combined cycle cogeneration plant located in King City, California (the "King City Facility"). The King City Facility is leased to the Lessee, a wholly-owned subsidiary of Calpine until 2028. The lease terms are such that the actual plant acquisition is reported by the Fund as a net investment in the lease given that the Fund's economic recovery of investment is substantially achieved from the lease with the Lessee. The King City Facility has a long-term power purchase agreement with an investment grade utility.

Also on May 19, 2004, the Fund through its wholly-owned subsidiary, CCT loaned $48.0 million ($53.4 million face value) to the Manager and at December 31, 2005, $32.2 million was outstanding. This Manager Loan, as discussed previously, is repayable over a six year term with interest at a rate of 13% per annum. The loan was intended to assist in providing the Fund with sufficient cash flow to allow the Fund to maintain levelized distributions over the lease term. The loan is a full recourse obligation of the Manager and is secured by a pledge of the Manager's limited partnership interest in the Partnership, including the Manager's right to receive distributions under its ownership of Class B Subordinated Units of the Partnership. In addition, the Lessee provided the Fund with a subordinated limited recourse guarantee of the Manager's obligations under the loan and granted the Fund a security interest in its distributable cash flow held in a bank account established by Calpine King City in connection with the project financing of the King City Facility. The obligations of Calpine King City under the subordinated guarantee are subordinated to the prior obligations of Calpine King City, and the Lessor, to the lender in relation to the King City Project financing.

The Fund financed the King City Transaction using a combination of $99.8 million raised pursuant to a public offering of Trust Units and a non-recourse loan facility totaling US$82 million provided by a third party (the "King City Loan").

RESULTS OF OPERATIONS

Calpine Power Income Fund

Selected Annual Information

(in 000's)	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003 (1) (2)
Total Revenue	$ 68,468	$ 68,325	$ 41,390
Net Earnings	47,194	46,864	38,527
Net Earnings Per Trust Unit	0.7644	0.8074	0.7409
Weighted Average Number of Trust Units Outstanding	61,742,288	58,042,861	52,001,351
Total Assets	681,697	691,264	492,819
Total Long-term Liabilities	79,844	88,877	–
Distributions Declared Per Trust Unit	0.9816	0.9620	0.9620

(1) A special distribution of $0.02 per Trust Unit was declared in September 2003.

(2) A special distribution of $0.0165 per Trust Unit was declared in January 2003.

Total Revenues

Total revenue for the year ended December 31, 2005 remained consistent with 2004 due to lower equity earnings from the Partnership offset by inclusion of a full year of finance income in 2005. The increase in revenue in 2004 over 2003 reflects eight months of finance income from the King City lease and interest on the Manager Loan.

Equity earnings for the year ended 2005 were $42.0 million down from $45.7 million in 2004, primarily resulting from an allowance of $16.0 million accrued for the potential impairment of the Whitby Loan offset by increased power generation at the Island Facility following no planned outages in 2005 and an upgrade completed in the second quarter of 2004. A detailed discussion of the Partnership's operating results can be found in the Calpine Power L.P. section of this MD&A.

Finance income totaled $18.5 million for the year ended December 31, 2005, compared to finance income of $16.5 million for 2004. Finance income is generated by the long-term lease of the King City Facility and associated land to Calpine and commenced upon the acquisition of the facility and land by the Fund in May 2004. The Fund recognizes finance income over the lease term on a basis that provides a constant rate of return on the net investment in the lease with lease and land rental payments due, annually, in arrears on December 31. Lease payments are payable in US and Canadian dollars – the US dollar portion being sufficient to service principal and interest payments of the Fund's non-recourse US dollar denominated King City Loan. Of the $2.0 million increase in finance income in 2005 from 2004, $3.2 million is due to the additional four months of finance income included in the 2005 period as the King City assets were acquired May 2004, offset by a $1.2 million decrease as a result of the effect of foreign exchange.

Interest and other income relates to interest, net of amortization of the discount, on the Manager Loan, interest earned on the loan to the Partnership and interest earned on other cash balances held. The increase over the prior year is due to a full year of interest earned in 2005 as the Manager Loan originated in May 2004, offset by the impact on interest earned of a lower outstanding loan balance as a result of scheduled principal repayments. As of March 31, 2006, all scheduled payments on the Manager Loan have been received.

Net Earnings

Net earnings for the year ended December 31, 2005 increased slightly over 2004 due to a full year of finance income from the King City Facility acquired in May 2004, offset by lower equity earnings from the Partnership. Partnership earnings of 2005 were lower than 2004, reflecting the impact of a $16.0 million allowance for the potential impairment of the Whitby Loan, partially offset by the higher earnings from the Island Facility from increased availability due to no planned outages in 2005 and the increased capacity from the 2004 capital upgrade. Net earnings for the year ended December 31, 2004 increased over the same period of 2003, reflecting the acquisition of the King City Facility and interest on the Manager Loan made in May 2004.

Selected Annual Information

(in 000's)	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Management and administrative expenses	$ 3,660	$ 3,096	$ 2,458
Amortization	1,870	1,209	271
Interest on long-term debt	12,363	8,236	–
Interest	603	761	134
Initial lease costs	–	4,191	–
Future Income Taxes	3,017	3,809	–

Management and Administrative Expenses

After considering the effect of a one-time recovery of $0.5 million in 2004 in respect of the 2003 management incentive payment to the Manager, management and administrative expenses were $3.7 million for the year ended December 31, 2005 compared to $3.6 million for 2004. Management and administrative expenses in 2005 were up $0.1 million from 2004 mainly due to additional legal and advisory costs incurred as a result of the Calpine CCAA and Chapter 11 proceedings. The Fund incurred $0.2 million for fees payable to the Manager to manage and administer the Fund for the year ended December 31, 2005, consistent with $0.2 million in 2004.

The total special distribution by the Partnership declared for the year ended December 31, 2005 was $3.1 million (2004 – $4.9 million). The special distribution is paid to the Fund from the Partnership and is equal the Fund's management and administrative expenses, other than the King City management and administrative expense and the fees paid to the Manager to manage and administer the Fund. The special distribution is paid to the Fund before any amounts are paid on the Class B Subordinated Units or Class A Priority Units. At the end of 2005, $0.4 million was receivable by the Fund as a declared but unpaid special distribution (December 31, 2004 – $nil).

Amortization

Amortization expenses attributable to the deferred financing costs of the Credit Facility (defined below) and the King City Loan were $1.9 million for the year ended December 31, 2005. Deferred financing costs were higher in 2005 mainly due to recognition of $0.6 million relating to the cancelled $90 million acquisition tranche of the Credit Facility and a full year of amortization on the deferred financing costs associated with the King City Loan that originated in May 2004.

Interest Expense

Interest on long-term debt of $12.4 million for year ended December 31, 2005 related to interest accrued on the King City Loan compared to $8.2 million for 2004. The King City Loan, payable annually in US dollars, matures in 2019 and bears interest at a fixed interest rate of 12.8% per annum. The US dollar lease receipts together with a portion of the funds from the King City restricted cash account will be used to service this loan and, as such, foreign exchange risk associated with satisfying future obligations under this US dollar loan is largely mitigated. Interest expense incurred in 2005 increased a total of $4.2 million of which $4.6 million of the increase is due to the additional four months of interest expense included in the 2005 period as this loan originated in May 2004, offset by a $0.4 million decrease due to the impact of foreign exchange fluctuations.

Interest expense of $0.6 million for the year ended December 31, 2005 related to standby charges and interest on the outstanding balance of the CCT Credit Facility (the "Credit Facility"). On December 3, 2005, the Fund cancelled the unused $90 million portion of the Credit Facility that was available solely for use on new acquisitions. As a result, the Fund saved $28 thousand on standby charges for the remainder of 2005. Interest expense of $0.8 million for the year ended December 31, 2004 relates solely to interest and standby charges on the Credit Facility. Utilizing $8.0 million of borrowings from the Credit Facility and $8.0 million of funds from the Levelization Reserve, the Fund loaned $12.0 million to the Partnership in 2004 and $4.0 million in 2005 for financing of the 2004 upgrade to the Island Facility. The Fund has repaid all $8.0 million of the outstanding Credit Facility balance in 2005. This was achieved through cash received in excess of distribution requirements. The average cost of borrowing incurred for the Credit Facility in 2005 was 4.68%.

Initial lease costs of $4.2 million relate to the King City Facility and were expensed at the inception of the lease to Calpine King City in May 2004.

The Fund recorded future tax expense of $3.0 million on its income from the King City Facility for the year ended December 31, 2005, representing an effective tax rate of 40.75%. Year over year future tax expenses decreased $0.8 million as a result of lower taxable income from the King City Facility in the current period. No cash taxes are expected to be paid in 2005 in the US due to US tax depreciation on the King City Facility in excess of income from operations.

Selected Annual Balance Sheet Information

(in 000's)	As at Dec. 31, 2005	As at Dec. 31, 2004
Cash and cash equivalents	$ 16,797	$ 8,138
Loan to Calpine Canada Power Ltd.	32,188	41,271
Net Investment in Lease	152,555	137,104
Loan to Calpine Power, L.P.	–	11,993
Borrowing under Credit Facility	–	8,000
Accrued interest on long-term debt	11,937	–
Long-term debt	93,257	96,025
Future income tax	6,445	3,589

Unrestricted Cash balances in the Fund have increased 106% over the prior year. The main driver is the collection of the loan to the Partnership in December 2005 in combination with cash generated in excess of distribution requirements.

The Manager Loan balance has decreased by $9.1 million from collection of scheduled principal repayments in 2005. Classified as current in 2005 are all scheduled principal repayments due up to March 31, 2006 reflecting all scheduled payments on the Manager Loan that have been received in 2006. No payments are expected to be received past March 31, 2006.

The net investment in lease which relates to the King City Lease increased by $15.5 million reflecting accrued finance income of $18.5 million offset by the effect of foreign exchange. King City Lease receipts of $19.5 million scheduled to be received on December 31, 2005 were received on January 3, 2006.

The loan to Calpine Power, L.P., was fully collected on December 16, 2005 and the borrowing under the Credit Facility was fully repaid in the third quarter of 2005.

In 2005, accrued interest of $11.9 million and principal repayments of $11.7 million, scheduled for December 31, 2005 were paid on January 3, 2006 in conjunction with the King City Lease receipts.

Long-term debt decreased by $2.8 million due to the impact of foreign exchange. Foreign exchange impacts on long-term debt are largely offset by foreign exchange impacts on the net investment in lease.

The future income tax liability has increased $2.9 million over the prior year due to the future tax expense on the Fund's income from the King City Lease. No cash taxes were paid in 2005.

Calpine Power, L.P.

Selected Annual Information

(in 000's)	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Total Revenue	$ 116,099	$ 105,346	$ 91,348
Net Earnings	58,356	64,012	58,742
Net Earnings Per Class A Priority Unit	0.8080	0.8795	0.7956
Net Earnings Per Class B Subordinated Unit	0.7331	0.8201	0.7795
Total Assets	635,002	660,229	665,407
Total Long-term Liabilities	2,570	2,369	2,183
Distributions Declared			
Per Class A Priority Unit	1.0200	1.0350	1.0226
Per Class B Subordinated Unit	0.9347	0.9715	0.9935

Total Revenues

Revenues for 2005 were up $10.8 million from 2004, mainly due to higher power generation at the Island Facility in 2005. The Island Facility operated at 97% availability in 2005, significantly up from 84% availability achieved in 2004. The increased power generation reflects both, there being no significant planned outages occurring in 2005, as well as the increase in capacity of the plant since the upgrade, completed in the second quarter of 2004. This increase was partially offset by the non-payment of the December 1 to December 20, 2005 tolling revenue for the Calgary Energy Centre of $3.0 million, following the filing for CCAA protection by CESCP.

The increase in revenues in 2004 over 2003 reflects a full year of operations from the Calgary Energy Centre which commenced operations on March 31, 2003.

Interest earned on the Whitby Loan and other cash balances was $4.0 million for the year ended December 31, 2005 on par with the $3.8 million for 2004. In 2005, the Partnership received $5.5 million from CCWHC that was applied to the accrued interest receivable and principal on the Whitby Loan. The amounts received in 2005 represent a $2.5 million distribution of the Whitby partnership's 2004 earnings plus a further $3.0 million from current year operations. In 2004, the Partnership received $2.0 million from CCWHC that was applied to accrued interest receivable on the Whitby Loan.

Net Earnings

Net earnings for 2005 decreased 9% due to an allowance of $16.0 million accrued for the potential impairment of the Whitby Loan, an increase in depreciation expense and the non-payment of December 1 to December 20, 2005 Calgary Energy Centre tolling revenue of $3.0 million, following the filing for CCAA protection by CESCP. These reductions were offset by benefits realized with the Island Facility upgrade, increased plant availability and lower operating and maintenance expenses at both the Calgary and Island facilities.

The increase in net earnings in 2004 over 2003 is primarily a result of a full year of operations from the Calgary Energy Centre.

Island Cogeneration Facility

Selected Annual Information

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Availability	97%	84%	82%
Electricity generated (MWh)	2,042,824	1,628,402	1,470,891
Steam generated (GJ)	1,645,840	1,635,422	1,673,885
Summary of Financial Results			
Revenues	$ 59,101	$ 47,166	$ 48,729
Operating and maintenance expense	(9,884)	(9,588)	(9,552)
Depreciation and accretion	(12,320)	(11,864)	(11,462)
Interest expense	(589)	(242)	–
Net earnings	$ 36,308	$ 25,472	$ 27,715

The Island Facility is a 240 MW combined cycle cogeneration plant located at Duncan Bay, near Campbell River, on Vancouver Island, British Columbia. Power generation in 2005 increased 25% over 2004 due to both increased availability from no planned outages in 2005 and capacity of the plant relating to the capital upgrade completed in the second quarter of 2004. The 2004 upgrades consisted of compressor blade modifications, an air intake upgrade with improved air filtration and installation of a glycol freeze protection system. The upgrades improved output of the Island Facility by approximately 25 MW which was made available to BC Hydro under the existing terms of the Electricity Purchase Agreement ("EPA"). The total cost of the upgrades was $16.0 million, substantially as budgeted. All of the upgrade expenditures were financed through a loan from the Fund. This loan was fully repaid in December 2005.

Revenues

Electricity generation revenue was $43.4 million for the year ended December 31, 2005, compared to $35.5 million for the year ended December 31, 2004. The increase in revenues from 2004 was due to both the increased availability of the plant from no planned outages in 2005 and the increased capacity from the 2004 capital upgrades.

Electricity revenue is net of any heat rate penalty payable to BC Hydro pursuant to the terms of the EPA. A heat rate penalty is payable when the annual heat rate of the Island Facility exceeds the heat rate guaranteed in the EPA and as a result BC Hydro incurs additional costs for gas. The amount of the penalty payable is a function of natural gas prices and the amount that the actual heat rate exceeds the guaranteed heat rate stated in the EPA. Heat rate penalties for the year ended December 31, 2005 totaled $7.1 million compared to $7.5 million for 2004. Pursuant to an agreement between the Partnership and Calpine, the Island Facility is indemnified by Calpine for annual heat rate penalties incurred over specified amounts. The 2005 heat rate penalty did not exceed those specified levels and therefore no amounts under this agreement were paid in 2005 (2004 – $0.2 million).

Included in electricity generation revenue was \$5.1 million of settlement revenue from Alstom Canada Inc. ("Alstom") for the year ended December 31, 2005, compared to \$4.3 million in 2004. Pursuant to a settlement agreement reached in 2002 (the "Settlement Agreement") with Alstom related to performance guarantees set out under the Island Facility Construction Contract, Alstom agreed to pay certain amounts totaling \$50.0 million to the Partnership over a ten year period because certain performance targets for the Island Facility were not met. The increased Alstom settlement revenue in 2005 over 2004 is a direct result of the plant shutdown in 2004 during which time no settlement revenue was earned as the plant was not operational. At December 31, 2005, the remaining amount due from Alstom under the terms of the Settlement Agreement was \$28.7 million (December 31, 2004 – \$34.1 million) which will be earned over approximately the next five to seven years, based on the expected operations of the plant during that period. Remaining amounts owing under the Settlement Agreement, if any, will be receivable upon termination of the Long-Term Service Agreement ("LTSA") with Alstom expected to be no later than April 2017. Performance of this obligation is secured by a letter of credit issued by a Canadian financial institution.

Revenue from steam sold to Catalyst Paper Corporation ("Catalyst"), successor by amalgamation to Norske Skog Canada Limited, was \$15.7 million for the year ended December 31, 2005 compared to \$11.6 million in 2004. As a result of higher natural gas prices, the average steam price received has increased 37% in 2005 over 2004. Price increases in 2005 were the main factor resulting in the increase in revenues as steam volumes in 2005 were comparable with 2004.

Expenses

Operating and maintenance expense attributable to the Island Facility was \$9.9 million for the year ended December 31, 2005, compared to \$9.6 million for 2004. The \$0.3 million increase in operating and maintenance expense for the year was due to increased production from the facility. Certain operating and maintenance expenses are paid by the Manager and reimbursed by the Partnership, in accordance with applicable agreements.

Depreciation expense attributable to the Island Facility was \$12.3 million for the year ended December 31, 2005, compared to \$11.9 million for 2004. Capital expenditures relating to the 2004 Island capital upgrade of \$16.0 million are being depreciated over the remaining life of the plant, resulting in the increase in year over year depreciation expense.

Interest expense for the year ended December 31, 2005 totaled \$0.6 million and related to the loan (the "Partnership Loan") from the Fund used to finance the capital upgrade at the Island Facility. The loan bore interest at the Fund's cost of funds plus 10 basis points and averaged 4.78% for the year ended December 31, 2005. The Partnership Loan balance was \$12.0 million at the beginning of 2005, and was fully repaid by December 2005.

Calgary Energy Centre

Selected Annual Information

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003 [1]
Availability	98%	92%	94%
Electricity generated (MWh)	318,594	858,662	747,604
Summary of Financial Results			
Revenues	$ 52,972	$ 54,375	$ 38,126
Operating and maintenance expense	(8,934)	(10,015)	(4,955)
Depreciation and accretion	(9,600)	(8,910)	(6,151)
Net earnings	$ 34,438	$ 35,450	$ 27,020

(1) 2003 availability and generation factors are from commercial operations date, March 31, 2003.

The Calgary Energy Centre is a natural gas-fired combined cycle plant located in Calgary, Alberta, which commenced operations on March 31, 2003. The Calgary Energy Centre has a capacity of 300 MW, consisting of 250 MW of base capacity plus 50 MW of peaking capacity.

Revenue was earned through both a fixed and variable charge payable by CESCP, a wholly-owned partnership of Calpine, under the terms of a long-term tolling agreement, where the fixed charge component represented approximately 99% of the total revenue and was a function of plant availability. The Partnership collected all 2005 toll payments except for tolling revenue of $3.0 million relating to the period of December 1 to December 20, 2005, following the filing for CCAA protection by CESCP. Post-filing tolling revenue related to December 21, 2005 to January 16, 2006, the date at which CESCP repudiated the contract, was received on February 15, 2006. On February 16, 2006 the Partnership announced that it commenced a short-term toll of the generation capacity with EPCOR until the end of June 2006 at rates significantly lower than the Tolling Agreement with CESCP, reflecting current Alberta market conditions. The Manager, on behalf of the Partnership, is actively seeking to re-market the long-term capacity of the Facility.

Annual availability for 2004 was slightly lower than expected due to a forced outage in August 2004 caused by a combustion turbine hardware failure. The lost revenue during this outage was offset in part by a recovery pursuant to an availability guarantee set out in the Calgary LTSA with Siemens Westinghouse.

Revenues

Electricity revenues at the Calgary Energy Centre were $53.0 million for the year ended December 31, 2005 compared to revenues for the year ended December 31, 2004 of $54.4 million. The decrease over the prior year is mainly due to the non-payment of December 1 to December 20, 2005 revenue of $3.0 million offset by more start-up charges to CESCP than the prior year.

The tolling revenue earned in 2005 was significantly above the net revenue the Partnership would have earned had it been selling power from the plant to the Alberta market. CESCP was entitled, under the contract, to dispatch the plant allowing CESCP to focus on generating power when it was profitable to do so. The capacity factor of the plant, being a measure of the actual MWh's produced versus the total possible MWh's of production from the plant in a given time period, was 13% for 2005, reflecting the impact of low prices in the Alberta power market on CESCP's ability to profitably sell power to the Alberta market. This lower capacity factor impacted power generation during the period, but had almost no financial impact on the Fund as revenue was earned from the Tolling Agreement which is based on availability of the plant. The capacity factor for 2004 was 34%.

Expenses

Annual operating and maintenance expense attributable to the Calgary Energy Centre was \$8.9 million for the year ended December 31, 2005, compared to \$10.0 million for 2004. Major maintenance expenses related to the planned outage in the second quarter of 2004 accounts for the year over year decrease in operating and maintenance expenses in 2005. There were no major maintenance outages in 2005. Certain operating and maintenance expenses are paid by the Manager and reimbursed by the Partnership, in accordance with applicable agreements.

Depreciation expense attributable to the Calgary Energy Centre was \$9.5 million for the year ended December 31, 2005 compared to \$8.8 million for 2004. The increase over the prior year is due to a reassessment of the useful life of certain spare parts in 2005 resulting in a shorter depreciable life.

Selected Annual Balance Sheet Information

(in 000's)	As at Dec. 31, 2005	As at Dec. 31, 2004
Cash and cash equivalents	\$ 27,903	\$ 13,715
Accounts receivable	6,426	10,819
Prepaid expenses	6,465	2,014
Loan to Calpine Canada Whitby Holdings Company	19,414	37,404
Capital assets	569,923	591,450
Accounts payable and accrued liabilities	10,807	8,621
Loan payable	–	11,993

Increases in cash and cash equivalents of \$14.2 million is mainly due to increases in the Major Maintenance Reserve established by the Manager, as well as increased cash from operations generated by the Island Facility.

The accounts receivable balance at December 31, 2005 was less than the balance at December 31, 2004 mainly due to the \$3.0 million allowance for doubtful accounts on the CESCP tolling revenue for the period of December 1 to December 20, 2005.

Prepaid expenses related mainly to amounts paid in accordance with LTSA's. The amounts will be recognized when scheduled major maintenance events occur at the plants. There were no major maintenance events for either plant in 2005.

The Whitby Loan decreased $18.0 million, $16 million due to an allowance accrued for the potential impairment of the Whitby Loan and $2.0 million due to cash received during the year from CCWHC which has been applied as principal repayments on this loan.

Capital assets decreased over the prior year due to depreciation recognized in the period of $21.7 million offset by capital additions in 2005 of $0.2 million.

The increase in accounts payable and accrued liabilities at December 31, 2005 over the balance at December 31, 2004 was mainly due to a higher accrual for the heat rate penalty relating to the Island Facility as well as timing of payments.

The Partnership Loan payable to the Fund of $12.0 million at December 31, 2004 was fully repaid by December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

CALPINE POWER INCOME FUND

Selected Annual Information

(in 000)	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Cash provided by operating activities	$ 54,516	$ 61,885	$ 54,183
Cash provided by (used in) investing activities	22,679	(206,605)	–
Cash provided by (used in) financing activities	(68,556)	158,656	(54,156)
Cash and cash equivalents	16,797	8,138	37
Restricted cash	5,597	5,604	–

Cash provided by operating activities was $54.5 million for the year ended December 31, 2005 compared to $61.9 million for the same period of 2004, a decrease of $7.4 million due to the timing of the King City Lease receipt and related interest payments on the King City Loan. The 2005 King City Lease receipt of $19.5 million was received on January 3, 2006, and in combination with restricted cash of $4.1 million, was used to fund principal payments of $11.7 million and interest payments of $11.9 million on the King City Loan on January 3, 2006. The 2004 King City Lease receipts and related interest and principal payments on the King City Loan occurred on December 31, 2004. Had the 2005 King City Lease receipt and debt service payments occurred on December 31, 2005 as scheduled, cash provided by operating activities for the year ended December 31, 2005 would have been $62.1 million. In 2005, the Fund, through its indirect 70% ownership of the Partnership, received $0.0798 of Distributable Cash per Class A Priority Unit per month (in addition to a special distribution equal to certain management and administrative expenses incurred directly by the Fund) for the year ended December 31, 2005 up from $0.079 per month in 2004.

For the year ended December 31, 2005, cash provided by investing activities totaled $22.7 million. During the year, the Fund received scheduled principal repayments on the Manager Loan of $10.7 million. In January 2005, the Fund loaned $4.0 million to the Partnership adding

to the $12.0 million outstanding at December 31, 2004 (the "Partnership Loan") for a total of $16.0 million that was used to finance the balance of capital expenditures associated with the 2004 Island Facility upgrade. The Partnership Loan was fully repaid by December 2005. In 2004, the Fund used $206.6 million of cash to acquire the King City Facility and to loan funds to both the Manager and the Partnership.

Cash used in financing activities of the Fund for 2005 totaled $68.6 million, comprised of distributions paid of $60.6 million and $8.0 million used to repay the Credit Facility. For the same period in 2004, cash provided by financing activities totaled $158.7 million, including $99.8 million in net proceeds from the issuance of Trust Units and $111.1 million from the issuance of long-term debt, both associated with the King City Transaction in May 2004, less $55.4 million in distributions paid to Unitholders. The Fund's offering consisted of 9,740,937 Trust Units at a price of $10.25 per unit. In 2004, the Fund drew $8.0 million on the Credit Facility which was loaned to the Partnership to fund the Island Facility upgrade.

At December 31, 2005, the Fund had unrestricted cash and cash equivalents of $16.8 million, an increase of $8.7 million from December 31, 2004.

In October 2003, the Fund, through CCT, obtained a $120 million extendible revolving term Credit Facility. The facility had a three year term and was split into two tranches. One tranche of $90 million (the "Acquisition Tranche"), was available only to finance acquisitions and the second tranche of $30 million (the "Working Capital Tranche") was available for acquisitions as well as for general corporate purposes. Costs of $3.3 million related to establishing the credit facility are being amortized over a three year term commencing October 2003. In December 2005, the Fund canceled the Acquisition Tranche as it had remained undrawn since inception and was not considered likely to be utilized in the near future. The Working Capital Tranche expires October 3, 2006. At December 31, 2005, no amounts were drawn on the Credit Facility.

As part of the King City Transaction in 2004, the Fund deposited US$4.6 million of the funds received from the offering as restricted cash into a segregated account as required under the terms of the King City Loan. The funds were used to purchase government and high quality investments with maturities that coincide with certain annual payments due on the King City Loan. On January 3, 2006, US$3.9 million of these restricted cash reserves were used to pay principal and interest on the King City Loan.

Calpine Power L.P.

Selected Annual Information

(in 000)	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Cash provided by operating activities	$ 98,084	$ 88,219	$ 65,848
Cash provided by (used in) investing activities	1,754	(22,468)	(37,985)
Cash provided by (used in) financing activities	(85,728)	(67,188)	(110,971)
Cash and cash equivalents	27,903	13,715	12,978
Restricted cash	–	–	2,190

The Partnership had cash and cash equivalents $27.9 million at December 31, 2005, up $14.2 million or 103% from 2004. Included in cash and cash equivalents is an unsegregated cash reserve of $17.3 million at December 31, 2005 (December 31, 2004 – $10.9 million) that is intended to be used to fund future maintenance costs of the Partnership. The next major maintenance for the Island Facility is expected to occur in the third quarter of 2006. Major maintenance for the Calgary Energy Centre is dependent upon on actual operating hours as well as optimal timing to perform the maintenance. As such, the exact timing for the next major maintenance event cannot be determined at this time although it is expected to occur in the first half of 2006.

The increased cash generated by operating activities of $9.9 million for 2005 was primarily attributable to increased cash from operations at the Island Facility in 2005 compared to 2004 when the Island Facility's upgrade was being implemented.

The Partnership used $0.2 million for capital expenditures during the year ended December 31, 2005, substantially all associated with the Island Facility. In the same period last year capital expenditures were $22.1 million which largely related to the Island capital upgrade and capital portions of the major maintenance that occurred in the second quarter of 2004.

Cash from financing activities of the Partnership for 2005 included $4.0 million received in January 2005 on the Partnership Loan to finance the balance of capital expenditures associated with the Island Facility upgrade net of $16.0 million in principal repaid during 2005. The loan was fully repaid by December 2005.

Future Obligations

Contractual Obligations (in 000's)	2006	2007	2008	2009	2010	2011 and Beyond	Total
In Canadian $							
Asset retirement liability							
Calpine Power, L.P.	$ –	$ –	$ –	$ –	$ –	$36,612	$36,612
Island Cogeneration Facility							
land lease	30	30	30	30	30	810	960
In US $							
Asset retirement liability							
King City Facility	$ –	$ –	$ –	$ –	$ –	$ 7,610	$ 7,610
Calgary Energy							
Centre – LTSA	2,580	4,754	2,580	406	402	19,095	29,817
Long-term debt							
principal	18,132	7,123	5,535	1,857	4,891	42,163	79,701

Both the Fund and Partnership will be required to remove generation facilities at the end of their useful lives and restore the plant sites to their original condition. The future asset retirement obligation for the Partnership, estimated to be $36.6 million, is expected to be incurred between 2037 and 2038. The future asset retirement obligation of the Fund, estimated to be US$7.6 million (relating to the King City Facility), is expected to be incurred in 2028, at the earliest, for the Fund.

The Calgary Energy Centre and the Island Facility are each required to make payments for annual plant maintenance in accordance with applicable LTSA. Amounts paid in accordance with these agreements for the year ended December 31, 2005 were $0.5 million (2004 – $0.6 million) for the Calgary Energy Centre and $0.8 million (2004 – $0.8 million) for the Island Facility. Future commitments relating to the Island Facility's LTSA has a significant variable portion that cannot be reasonably estimated. Currently the variable portion of the Island LTSA is offset with the Settlement Agreement with Alstom. As a result, the Island Facility will not be required to make significant cash payments relating to equivalent operating hour charges under the Island LTSA for approximately five to seven years. Calgary Energy Centre's LTSA payments are due in US dollars and are payable at certain equivalent operating hour hurdles.

As part of the acquisition of the King City Facility, deposit accounts with a third-party depositary agent were established to ensure revenues earned by Calpine King City, after payment of operating, fuel and major maintenance expenses, are applied to satisfy loan obligations on the King City Loan and to satisfy lease payment obligations, in priority to any distributions being made to Calpine King City. The 2005 King City lease payment of $19.5 million was received on January 3, 2006 and in combination with restricted cash of $4.1 million, was used to fund principal payments of $11.7 million and interest payments of $11.9 million on the King City Loan on January 3, 2006.

The Fund has not entered into any off-balance sheet arrangements.

DISTRIBUTABLE CASH AND DISTRIBUTIONS

Distributable Cash is not a measure under Canadian generally accepted accounting principles and there is no standardized measure of Distributable Cash. Distributable Cash, as presented, may not be comparable to similar measures presented by other companies. Distributable cash has been presented to assist readers in determining possible future cash distributions. Distributable cash cannot be assured and may vary.

Calpine Power Income Fund

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Funds from Operations Before Working Capital Changes	$ 42,112	$ 63,770
Add (Deduct):		
Change in working capital and management reserves	13,236	(2,982)
Levelization reserve	(5,428)	(9,643)
Financing costs	–	(71)
Payment of principal on long-term debt	–	(2,770)
Receipt of principal on Calpine Canada Power Ltd. loan	10,686	8,014
Distributable Cash	$ 60,606	$ 56,318
Weighted average number of Trust Units outstanding	61,742,288	$58,042,861
Distributable Cash per Trust Unit (1)	$ 0.9816	$ 0.9620

(1) calculated as sum of monthly per unit distributions

The amount of Distributable Cash of the Fund to be distributed monthly to Unitholders is, as defined in the Fund Trust Indenture, based generally on the amount by which the Fund's cash on hand exceeds: (i) administration expenses of the Fund; (ii) amounts required for the business and operations including fees payable to the Manager under the Administration and Management Agreements; and (iii) any cash reserve which the Manager in its discretion determines is necessary to satisfy the Fund's current and anticipated obligations. The Fund pays monthly cash distributions to Unitholders on or about the 20th day of each month following the record date, which is the last business day of the proceeding month.

Distributable Cash generated by the Fund totaled $60.6 million or $0.9816 per Trust Unit for the year ended December 31, 2005 compared to $56.3 million or $0.9620 per unit in 2004.

Working Capital and Management Reserves

The change in working capital amount of $13.2 million in 2005 includes additional accrued interest payable on the King City Loan of $11.9 million. The change in working capital amount in 2004 included additional accrued costs relating to the review of the Deer Park acquisition opportunity.

Levelization Reserve

In 2004 the Fund established a Distribution Levelization Reserve ("the Levelization Reserve"), the purpose of which is to levelize, over the long-term, the distributions paid by the Fund to Unitholders in respect of the King City Facility acquisition, so as to enable the Fund to provide a level cash stream to the Unitholders. Total undistributed cash in the Levelization Reserve at December 31, 2005 was $15.1 million. The CCT Trustees intend to annually increase or decrease this reserve with long-term consideration given to the expected cash generated by the Fund and future distribution requirements to Unitholders. However, the CCT Trustees are subject to no mandatory requirements with respect to the timing or manner of utilization of the Levelization Reserve.

	Levelization Reserve
Balance at May 19, 2004	$ –
Contributions	9,605
Income reinvested	38
Balance at December 31, 2004	$ 9,643
Contributions	5,143
Income reinvested	285
Balance at December 31, 2005	$ 15,071

As at December 31, 2005 and 2004, the Levelization Reserve has been invested as follows:

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Guaranteed investment certificates	$ 15,071	$ 5,643
Loan to Calpine Power L.P.	–	4,000
Balance at December 31, 2005	$ 15,071	$ 9,643

Calpine Power, L.P.

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Funds from Operations Before Working Capital Changes	$ 96,198	$ 84,802
Add (Deduct):		
Capital expenditures	(192)	(22,145)
Maintenance reserve increase	(6,329)	(1,636)
Loan payable	(11,993)	11,993
Change in working capital and management reserves	(3,815)	2,456
Distributable Cash	$ 73,869	$ 75,470
Allocation of Distributable Cash		
Class A Priority Units	$ 53,039	$ 53,819
Class B Subordinated Units	20,830	21,651
	$ 73,869	$ 75,470
Per Unit allocation of Distributable Cash		
Class A Priority Units	$ 1.0200	$ 1.0350
Class B Subordinated Units	$ 0.9347	$ 0.9715

The amount of Distributable Cash, as defined in the Calpine Power, L.P. Partnership Agreement, is to be distributed monthly and is based generally on the amount by which the Partnership's cash on hand exceeds: (i) management and administration expenses of the Partnership; (ii) amounts required for the business and operations of the Partnership and its facilities (including expenses payable to the Manager under the Operating and Maintenance Agreements); and (iii) any cash reserve which the Manager in its discretion has determined is necessary to satisfy the Partnership's current and anticipated obligations, including a revenue for the average estimated major maintenance expenditures. The Partnership distributes Distributable Cash of the Partnership in respect of each month to the partners of record on the last day of each month based on the priority rights of the partnership units. Payments are made on or about the 20th day after each record date. The target distribution per Class A Priority Unit and Class B Subordinated Unit increases annually by 1%.

The Partnership makes monthly cash distributions to both the Class A Priority Unitholders and Class B Subordinated Unitholders. The Fund, as the holder of Class A Priority Units in the Partnership, must be paid its target distribution before the Manager receives distributions on its Class B Subordinated Units. In addition, the Partnership makes a special distribution to the Class A Priority Unitholders equivalent to the amount of certain general and administrative expense of the Fund. The Class B Subordinated Units represent a 30% economic interest in

the Island Facility, the Calgary Energy Centre and the Whitby Loan and their entitlement to distributions is subordinated to that of Class A Priority Unitholders until 2022. In light of the Manager's CCAA proceedings, distributions declared on the Class B Subordinated Units for December 2005 through February 2006 have been reduced to match the required monthly principal and interest payment required on the Manager Loan. No Class B Subordinated Unit distributions were declared for March 2006.

Maintenance Reserve

The Partnership has established a maintenance reserve, the purpose of which is to substantially fund future maintenance costs. The annual increase/decrease in the maintenance reserve is deducted from/added to cash available for distribution. During the year ended December 31, 2005, \$6.6 million (2004 – \$6.5 million) was contributed to the reserve and \$0.5 million (2004 – \$4.9 million) was withdrawn to fund maintenance costs. The funds in the reserve are invested in liquid securities with maturities coinciding with expected cash requirements. Interest income of \$0.3 million (2004 – \$0.1 million) was earned on the maintenance reserve during 2005. The Manager is subject to no mandatory requirements with respect to the timing or manner of utilization of the maintenance reserve. If needed, the funds in the Maintenance reserve could be applied by the Partnership for another purpose.

Maintenance Reserve

Balance at December 31, 2003	$	9,288
Contributions		6,476
Withdrawals		(4,862)
Income reinvested		126
Foreign exchange loss on US dollars		(104)
Balance at December 31, 2004	$	10,924
Contributions		6,558
Withdrawals		(521)
Income reinvested		276
Foreign exchange loss on US dollars		16
Balance at December 31, 2005	$	17,253

Loan Payable

The Partnership used cash from operations of \$12.0 million in the year ended December 31, 2005 to make principal payments on the Partnership Loan payable to the Fund in 2005. This loan was fully repaid on December 16, 2005. The loan originated in the second quarter of 2004 and no principal payments were made in the year ended December 31, 2004.

Working Capital and Management Reserves

Cash used to fund working capital in 2005 is significantly higher than 2004 due to increases in management reserves set aside in 2005 to support future distribution requirements.

TAX TREATMENT OF DISTRIBUTIONS

For Canadian tax purposes, the taxable amounts of distributions to the Fund's Unitholders was 20% for 2005. The remaining amount of the distributions reduce the adjusted cost base of the Trust Units, thereby providing a significant tax deferral for the Unitholders. The tax deferral arises primarily due to the ability of the Partnership to shelter its taxable income with capital cost allowance claims on the facilities. As a result, in 2005, 80% of the distributions to Unitholders was a return of capital rather than an allocation of income. In 2004, the taxable amount was 20%. The Manager anticipates that a higher proportion of cash distributions made by the Fund in the future will be included in the income of the Unitholders for income tax purposes. Further Fund acquisitions could serve to extend or reduce the tax-deferred horizon. The Fund recommends that Unitholders consult their tax advisors regarding the tax implications of their investment in Trust Units.

CRITICAL ACCOUNTING ESTIMATES

Preparation of both the Fund and Partnership's financial statements in conformity with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended.

For the Fund, amounts recorded for finance income, depreciation and the provision for asset retirement obligations are based on estimates. With respect to the Partnership, amounts recorded for depreciation and the provision for asset retirement obligations are based on estimates. By their nature, these estimates are subject to measurement uncertainty and changes in these estimates may impact the consolidated financial statements of future periods.

The valuation, measurement and classification of the Manager Loan are based upon an assessment of the Manager's ability to make scheduled principal and interest repayments, including estimates of future Class B Subordinated unit distributions from the Partnership to the Manager, estimates of the quality and quantity of the King City Lessee cash flows that have been pledged as security on a subordinated basis and an assessment of the likelihood that the stay of proceedings against the Manager arising from CCAA protection will be lifted to enable enforcement of such security. Changes to these factors could impact the Fund's ability to collect the Manager Loan, an impairment in value could be recognized and a resultant write-down recorded.

The carrying value of the Calgary Energy Centre is tested for impairment utilizing management's best estimate of expected undiscounted future tolling revenues, net of expected future undiscounted operating and maintenance costs. Future tolling revenues are currently estimated based on the results of the short-term toll with EPCOR combined with discussions with potential tolling counterparties and the Manager's assessment of current market conditions. Operating and maintenance costs are estimated based upon historical results and expected

inflation as well as future operating and maintenance requirements. If the actual long-term toll, when established, is lower than the EPCOR short-term toll on an annualized basis, management will reassess impairment of the carrying value of the Calgary Energy Centre and a resultant write-down could occur.

The allowance for the potential impairment of the Whitby Loan was calculated based upon an estimation of the amount of the Whitby Loan that would be collectible by the Partnership should Calpine Canada Power Ltd. demand repayment of its intercompany loan from CCWHC in its CCAA proceedings and should the Court fail to recognize the subordination between Calpine Canada Power Ltd. and CCWHC. Such estimation was based upon a determination of the underlying value of CCWHC's interest in Whitby Cogeneration L.P. utilizing estimated future cash flows from Whitby Cogeneration L.P. and an appropriate discount rate, combined with a pro rata allocation of such value between the Whitby Loan and the intercompany loan on a pari passu basis. Should the Court recognize the subordination, management estimates that the Whitby loan would be fully collectible, based upon management's estimate of future cash flows and the underlying value of CCWHC's interest in Whitby Cogeneration L.P. and the allowance for potential impairment would be reversed at that time.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2003, the CICA issued new Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, effective for fiscal years and periods starting on or after November 1, 2004. AcG-15 presents indications on the application of consolidation principles to certain entities that are subject to control on a basis other than the ownership of voting interests. The Fund and Partnership have adopted this guideline and there was no impact to the financial statements.

OUTLOOK

The Fund's main objective is to provide stable and sustainable cash distributions to its Unitholders. Management intends that this will be achieved by its ongoing commitment to operational excellence at its facilities, by enhancing operations to increase cash from operations and by reducing the overall risk profile of the Fund through establishment of a long-term toll for the Calgary Energy Centre with a credit worthy counterparty and in the long-term with accretive acquisitions of high quality assets.

On February 16, 2006, the Fund announced that the Partnership had entered into a short-term agreement to toll the capacity from the Calgary Energy Centre with EPCOR until June 30, 2006. The short-term toll was established at rates significantly lower than the CESCP Tolling Agreement, reflecting current Alberta market conditions. Completion of the agreement allows the Manager to focus its efforts to put in place a long-term tolling agreement for the Calgary Energy Centre, which it expects to complete in mid 2006.

The nature of the Fund's contracts, including the short-term toll with EPCOR, reduces the Fund's exposure to commodity price risk.

In 2006, the Fund expects continued strong operational performance from all of its plants. Financial results of the Partnership, however, will be adversely impacted by the loss of the Calgary Energy Centre tolling revenue from January 17 to February 16 2006, the significantly lower EPCOR short-term toll, and the impacts of a planned 45 day major maintenance outage at the Island Facility and a 10 day planned major maintenance outage at the Calgary Energy Centre. During the Island Facility major maintenance outage scheduled for the third quarter of 2006, no revenue will be earned from this facility and it is expected that resulting Distributable Cash of the Partnership during the estimated 45 day period, will be significantly reduced. Accordingly, it is anticipated that Class A Priority Unit distributions by the Partnership to the Fund during this period will be significantly below targeted amounts, resulting in a Class A Priority Unit distribution shortfall. In accordance with the terms of the Partnership Agreement, no B unit distributions will be made until this Class A Priority Unit shortfall is fully recovered. The quantum of any shortfall will be dependent upon a number of factors, including plant performance and the terms of replacement long-term toll for the Calgary Energy Centre. While a long-term tolling agreement has not been established for the Calgary Energy Centre, the Fund expects that such a tolling agreement will be at rates significantly lower than that which it had received under the Tolling Agreement with CESCP that was repudiated on January 16, 2006. The Partnership will be seeking damages from CESCP and Calpine for the non-performance and repudiation by CESCP and the guarantee by Calpine.

The Manager and its affiliates have ongoing obligations to the Fund and its subsidiaries pursuant to the administration agreement with respect to the Fund, the management agreement with respect to CCT and the Partnership and their subsidiaries, and operations and maintenance agreements with respect to the Island Facility and the Calgary Energy Centre. The Manager is currently performing its obligations under these agreements, and performance has not been affected by the CCAA proceedings. The filing by the Manager for voluntary reorganization under the CCAA is an event of default capable of supporting a termination of these agreements. However, such termination is stayed under the terms of the Initial Order, and upon completion of any reorganization transaction, it is not expected that this event of default shall have any continuing effect.

Calpine and its subsidiaries also have obligations to the Fund and its subsidiaries, in addition to those already referred to herein. Specifically: (a) the Manager has an indemnification obligation for any fee payable by the Partnership to BC Hydro under a transfer fee arrangement whereby BC Hydro is entitled to payment in connection with a disposition of Class B Subordinated Units by Calpine or any of its affiliates and Calpine has guaranteed this obligation; (b) The Manager has an indemnification obligation with respect to heat rate penalties under the EPA above threshold amounts and Calpine has guaranteed this obligation and (c) Calpine King City has certain obligations related to the King City Facility, and Calpine has guaranteed certain specific obligations (and this is not a general guarantee of Calpine King City). These financial obligations may be compromised in the reorganization proceedings.

In sum, to the extent that Calpine, the Manager, or one of their affiliates, are subject to voluntary reorganization proceedings under CCAA or Chapter 11, obligations in favour of the Fund and its subsidiaries may be compromised pursuant to the reorganization proceedings.

The Manager is expected to pursue a restructuring of its business in connection with the CCAA proceedings. Such restructuring may include a marketing process whereby the Manager disposes of its ownership interests related to the Fund, including its Class B Subordinated Units in the Partnership and its interest in administration, management and operations and maintenance agreements. However, there can be no certainty that the Manager will implement a restructuring or other disposition transaction involving these interests, nor is it possible to predict the timing of any such transaction.

Capital expenditures for 2006, excluding major maintenance, are expected to be $1.4 million and will be funded from cash flow from operations. The major maintenance reserve is expected to decrease by approximately $2.4 million as anticipated contributions to the reserve and interest on the reserve totaling approximately $6.7 million will be more than offset by anticipated maintenance expenditures of $9.1 million due to scheduled LTSA payments for the Calgary Energy Centre and the planned maintenance outages at both the Island facility and Calgary Energy Centre.

For the January through March 2006 distributions, the Manager and Trustees have decided to maintain distributions per unit at $0.0818 per month, consistent with distributions in 2005, while the process to re-market the long-term generation capacity of the Calgary Energy Centre is underway. This process is expected to be completed in mid-2006. The Manager and the Trustees will continue to assess the financial position of the Fund throughout 2006 to determine the future level of cash distributions to be made to Unitholders.

BUSINESS RISKS

The Fund and the Partnership are exposed to a variety of business risks. However, many of the risks to the Unitholders of the Fund are mitigated due to the priority on distributions that the Fund receives from the Partnership as well as the security available on the Calpine King City Lease arrangement. Risks that materialize and result in reduced Distributable Cash of the Partnership will first reduce Partnership distributions to holders of the Class B Subordinated Units. As well, distributions payable on the Class A Priority Units held by the Fund are cumulative until December 31, 2022, such that the targeted Class A Priority Unit distributions must be paid before any distributions can be made to Calpine's Class B Subordinated Units. The Fund and the Partnership have not to date entered into any derivative instruments to mitigate identified business risks.

Operations Risk

The major operations risks are facility performance and equipment failure risk. The revenues generated by the Facilities are largely dependent on the availability of the Facilities to generate electrical energy, and significantly impact the Distributable Cash to the Fund's Unitholders. Such risks have been reduced by operating high-quality assets with well-designed maintenance programs.

Contract Risk

The amount of Distributable Cash of the Fund available for distribution to Unitholders is highly dependent upon parties to certain agreements fulfilling their contractual obligations to the Fund or its affiliates. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions by the Fund.

On January 16, 2006 CESCP repudiated the Calgary Energy Centre Tolling Agreement and subsequently paid the Partnership tolling revenues applicable to the period only from the date of filing for CCAA protection to the date of repudiation, but did not pay the December 1 to December 20, 2005 toll. As indicated previously, the Partnership will have a claim against CESCP and Calpine in respect of this repudiation the amount of which and value to be realized are yet to be determined and are subject to the stay of proceedings against CESCP currently in place in the CCAA and the automatic stay against Calpine under the Chapter 11 proceedings.

The Partnership has entered into a short-term tolling arrangement with EPCOR which will provide tolling revenue until June 30, 2006 at rates significantly lower than the repudiated contract, reflecting current Alberta market conditions. This reduction in tolling revenue of the Partnership significantly reduces future cash available to make distributions to the limited partners of the Partnership. The Partnership and Manager have commenced a process to re-market the generation capacity of the Calgary Energy Centre on a long-term basis. If, for any reason, the Partnership and Manager are unable to re-contract the tolling capacity or re-contract it at rates lower than the EPCOR short-term toll, Distributable Cash of the Partnership will decline further and Distributable Cash of the Fund could decline. In addition, the carrying value of the Calgary Energy Centre could be impaired and a resultant write-down could occur.

Commodity Price Risk

Through the use of short and long-term contracts, the Fund has mitigated exposure to various commodity price risks. Under tolling arrangements established with customers, revenues are earned through monthly payments received from the customer in exchange for providing the full operating capacity of the plant. The customer is further responsible for providing all gas required to generate that electricity. This type of arrangement effectively eliminates commodity price risk and establishes a stable cash flow for the Fund. If any of these contracts are terminated the Fund would be exposed to commodity price risk and Distributable Cash of the Fund could decline.

Potential Events of Default under King City Lease and Related Non-Recourse Loan

As at the date of release of the financial statements, a potential event of default under the Lease and consequential possible event of default under the King City Loan arose from the Chapter 11 proceedings initiated by Calpine and Calpine's role as operator of the King City Facility. To prevent these potential events of default, the Lessee has the right to replace the operator within a specified period, subject to the consent of the Lender and the Lessor and satisfying certain other requirements in the Lease. Further, each of the Lessor and the Lender has a similar right

to replace the operator. The Lender has entered into a Forbearance Agreement pursuant to which it has agreed not to take any enforcement action under the Lease and Loan agreements by virtue of Calpine being included in the Chapter 11 proceedings, provided the operating and maintenance agreement remains in effect, Calpine continues to meet its obligations thereunder, Lessee is not included in a bankruptcy proceeding and no other defaults exist. The Forbearance Agreement expires on January 1, 2007. Should this event of default under the Lease fail to be avoided or remedied after the Forbearance Agreement expires, an event of default could occur under the King City Loan that permits the Lender to accelerate the payment obligations under the King City Loan and to foreclose the interest of the Lessor in the King City Facility. Negotiations are currently underway between the Lessee, the Lessor and the Lender to prevent these events of default, but have not been resolved as at the date of release of the financial statements. Based on these negotiations, the Manager believes that the forbearance period will be extended or that an agreement will be entered into to avoid the occurrence of the aforementioned event of default under the Lease and King City Loan.

It is possible that the Chapter 11 filing or voluntary reorganization undertaken by Calpine and its subsidiaries may result in further events of default under the Lease or King City Loan that cannot be avoided or remedied, in which case an event of default under the King City Loan could occur that permits the Lender to accelerate payment obligations under the King City Loan and to foreclose the interest of the Lessor in the King City Facility.

Collectibility of Loans

The Fund is exposed to default risk on the Manager Loan as the Manager filed under CCAA on December 20, 2005. While the interest and principal due on this loan is fully paid up to March 31, 2006, it is uncertain of the future collection on this loan.

It is expected that the Manager will be able to fund its obligations to the Fund under the Manager Loan only through distributions paid to the Manager on its Class B Subordinated Units of the Partnership. The Partnership pays distributions on the Class B Subordinated Units only after satisfying its distribution obligations on the Class A Priority Units owned by the Fund. As a result, and in light of the re-marketing of the long-term capacity of the Calgary Energy Centre, there can be no guarantee that the Partnership will distribute sufficient funds to the Manager, as the owner of the Class B Subordinated Units, to allow the Manager to meet its payment obligations under the Manager Loan. For December 2005 to February 2006, Class B Subordinated Unit distributions declared were reduced to match the required monthly principal and interest payments of the Manager Loan. In March 2006, no Class B Subordinated Unit distributions were declared and as a result no principal and interest payment from the Manager are expected in April 2006.

As indicated, Calpine King City is not subject to Chapter 11 proceedings, and its obligations under the limited recourse guarantee and subordinated security are not subject to any stay in Chapter 11 proceedings or subject to compromise in those proceedings. However, given the subordinated nature of these obligations, CCT's enforcement rights shall be subject to the Lender's rights under the King City project financing. The Manager's obligations under the Manager

Loan and related security may be compromised under the CCAA proceedings. Any such compromise is not expected to impact the aforementioned obligations of Calpine King City in respect of the Manager Loan. Management estimates that the Calpine King City guarantee and security held by the Fund in the Class B Subordinated Units held by the Manager support collection of the loan. A default in payment after demand of the loan is a condition to enforcement of the guarantee, and such a demand is currently stayed due to the current stay of proceedings. Accordingly, this guarantee and security cannot currently be enforced due to the current CCAA stay of proceedings.

In the event that CCT seeks repayment of the Manager Loan through a claim under the subordinated guarantee provided by the Lessee, CCT's claim is limited to funds held in restricted accounts under the King City project financing that are otherwise able to be distributed to the Lessee. Under the applicable depositary arrangements, these funds are available for release on an annual basis in January of each year and only if applicable requirements in the depositary arrangements are satisfied, including the requirement that no default or event of default under the Lease or project financing has occurred or will result from the transfer of funds into the Lessee distribution account.

Any defaults on this loan, or delays in ultimate collection of principal and interest, including the Fund's ability to enforce the guarantee and security on the loan, could adversely affect the Fund's Distributable Cash.

The Partnership has made a loan to CCWHC which holds a 50% partnership interest in the Whitby Cogeneration Facility. The Partnership is exposed to default risk on this loan as any defaults on the loan may have an adverse effect on the Partnership's Distributable Cash and, in turn, on the Distributable Cash of the Fund. Default risk has been minimized by including in the loan documentation restrictions on, but not limited to, how CCWHC carries on business, borrows or otherwise incurs new indebtedness, enters into business transactions and declares or pays dividends or other distributions to its shareholders. CCWHC was not an applicant in the December 20, 2005 filing for CCAA protection. Calpine Canada Power Ltd. has advised the Fund of its understanding that there is an intercompany loan of approximately $32.7 million payable by CCWHC to Calpine Canada Power Ltd., the terms of which have not been formally documented at December 31, 2005. Calpine Canada Power Ltd. also advised that Calpine Canada Power Ltd. has considered the intercompany loan to be subordinated to the Whitby Loan and does not expect repayment of the intercompany loan until the Whitby Loan has been paid in full. Calpine Canada Power Ltd. intends to document this subordination through a written agreement; however, such a written agreement is subject to recognition of the Court under the CCAA process to which Calpine Canada Power Ltd. is subject. An application to the Court is expected in the second quarter of 2006. Should the Court fail to recognize the subordination and should Calpine Canada Power Ltd. demand payment of the intercompany loan as a result of its CCAA proceedings, the timing and ultimate collection of the Whitby Loan would be negatively impacted. Accordingly, an allowance of approximately $16 million against the Whitby Loan has been accrued at December 31, 2005 in the Fund's financial statements for this potential impairment. Should the Court recognize the subordination, the Manager estimates that the Whitby Loan would be fully collectible and the allowance for potential impairment would be reversed at that time.

Regulatory Risk

The profitability of the Facilities will in part be dependent upon the continuation of a favorable regulatory climate with respect to the Facilities' continuing operations. Should the regulatory regime in an applicable jurisdiction be modified in a manner which adversely affects the Facilities, Distributable Cash of the Fund may be adversely affected. The Facilities encompass operations which are subject to operational, environmental and safety permits, standards and regulations imposed by regulatory bodies. Although the Manager believes that the operations of the Facilities are in compliance in all material respects with such permits, standards and regulations, or are in receipt of the necessary relaxation certificates, failure to operate the Facilities in strict compliance with applicable permits, standards and regulations may require temporary or permanent cessation of operations of the Facilities and may expose owners or operators to claims and clean-up costs. Any new law or regulation could require significant additional expenditures to achieve or maintain compliance.

Insurance Coverage

The Manager maintains insurance coverage for each of the Facilities that it believes is sufficient to address material insurable risks and provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities. Whitby Cogeneration Limited Partnership carries insurance for the Whitby Cogeneration Facility that the Manager believes to be adequate. However, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, nor that all events that could give rise to a loss or liability are insurable, nor that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Partnership or the Fund.

Labour Relations

While labour relations at the Facilities have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. In the event of a labour disruption such as a strike or lock out at the Island Facility, where the employees are unionized, the ability of the Island Facility to generate income, and consequently the ability of the Fund to generate Distributable Cash of the Fund and Partnership, may be impaired.

Loss of QF Status

The maintenance of Qualifying Facility ("QF") status at the King City Facility is dependent upon the King City steam host taking a sufficient amount of thermal energy from the King City Facility under the King City Steam Sale Agreement ("King City SSA") and related agreements. If the King City SSA and related agreements were terminated or the King City steam host failed to take a sufficient amount of thermal energy to ensure the King City Facility retained its QF status, the Fund would seek to replace the King City steam host as the thermal energy customer for the King City Facility or find another use for the thermal energy produced by the King City Facility to allow the King City Facility to retain its QF status. No assurance

can be given that securing another steam host or alternative steam use would be possible and feasible. The loss of QF status by King City Facility is a lease event of default as well as a loan event of default under the King City Loan, for which there is no grace period. Such loss of status would entitle the third party lender to exercise remedies under the various financing documents.

Although the King City Steam Host has indicated that it intends to curtail its steam take for its food dehydration facility from the King City Facility in the future, the Steam Host currently takes or has indicated that it intends to take a sufficient amount of thermal energy from the King City Facility to ensure the facility retains its QF status for 2006. In addition, the King City Steam Host has now successfully installed a water distillation facility which, when operated, has the ability to take a sufficient amount of thermal energy to ensure the King City Facility retains its QF status. The water distillation facility was completed in the third quarter of 2005. An order was granted in May, 2005 by FERC, pursuant to an application made earlier in the year, approving the recertification of the King City Facility for this alternate use of thermal energy provided that the water is not used in the King City Facility.

Credit Risk

The Fund is exposed to credit related losses in the event of non-performance by counterparties. Certain counterparties that the Fund and Partnership deal with, including Calpine, the Manager and CESCP are currently in reorganization proceedings. On January 16, 2006 CESCP repudiated the Calgary Energy Centre Tolling Agreement and the Partnership did not receive the December 1 to December 20, 2005 tolling revenues. As indicated, the Partnership will be seeking damages from CESCP and Calpine as guarantor as a result of the repudiation, but the claim cannot currently be advanced because of the stay of proceedings under CCAA and Chapter 11. The Fund and Partnership have not had any further non-performance from these counterparties but continues to monitor credit risk on an ongoing basis.

Foreign Exchange Risk

Within the Fund, the US dollar lease receipts from Calpine King City are expected to offset substantially all foreign exchange risk associated with satisfying future obligations under the US dollar King City Loan.

The Partnership is exposed to foreign exchange risk on US dollar denominated cash that it holds. The Partnership maintains a portion of the maintenance reserve in US currency in an effort to mitigate foreign exchange risk associated with satisfying future obligations, which are settled in US currency under the long-term service agreement for the Calgary Energy Centre.

DISCLOSURE CONTROLS AND PROCEDURES

Internal Disclosure Controls

In accordance with Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Fund's President and Chief Executive Officer and Chief Financial Officer have designed, or have caused to be designed under their supervision, disclosure controls and procedures. The President and Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Fund's disclosure controls and procedures as at December 31, 2005, have concluded that the Fund's disclosure controls and procedures provide reasonable assurance that (i) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation; and (ii) material information relating to the Fund is accumulated and communicated to the Fund's management, including the President and Chief Executive Officer and the Chief Financial Officer, in a timely manner.

SUMMARY OF QUARTERLY RESULTS

Calpine Power Income Fund

(unaudited)			2005		
(in 000's)	Total	Q4	Q3	Q2	Q1
Revenue					
Equity earnings from Calpine Power, L.P.	$42,017	$ 1,594(3)	$13,649	$12,766	$14,008
Finance income (2)	18,519	4,543	4,613	4,714	4,649
Interest and other income	7,932	1,799	1,921	2,052	2,160
	68,468	7,936	20,183	19,532	20,817
Expenses					
Management and administrative	3,660	1,501	523	637	999
Amortization	1,870	937	311	311	311
Accretion	101	27	27	28	19
Interest on long-term debt	12,363	2,998	3,069	3,171	3,125
Interest	603	107	140	160	196
Foreign exchange	(340)	(64)	(205)	86	(157)
Future income taxes	3,017	633	1,595	362	427
	21,274	6,139	5,460	4,755	4,920
Net earnings	$47,194	$ 1,797	$14,723	$14,777	$15,897
Net earnings per Trust Unit	$0.7644	$0.0291	$0.2385	$0.2393	$0.2575

(unaudited)			2004		
(in 000's)	Total	Q4	Q3	Q2 (1)	Q1
Revenue					
Equity earnings from Calpine Power, L.P.	$45,734	$13,292	$13,802	$ 5,378	$13,262
Finance income (2)	16,496	4,843	5,076	6,577	–
Interest and other income	6,095	2,198	2,290	1,607	–
	68,325	20,333	21,168	13,562	13,262
Expenses					
Management and administrative	3,096	1,620	661	357	458
Amortization	1,209	311	311	311	276
Accretion	75	27	28	20	–
Interest on long-term debt	8,236	3,132	3,433	1,671	–
Interest	761	237	218	170	136
Initial lease cost	4,191	–	–	4,191	–
Foreign exchange	84	20	53	11	–
Future income taxes	3,809	1,666	1,743	400	–
	21,461	7,013	6,447	7,131	870
Net earnings	$46,864	$13,320	$14,721	$ 6,431	$12,392
Net earnings per Trust Unit	$0.8074	$0.2157	$0.2384	$0.1138	$0.2383

(1) Operations for the three months ended June 30, 2004 include revenues and expenses as a result of the King City transaction, which closed in May 2004.

(2) Finance income is earned from the lease of the King City Facility to Calpine King City.

(3) Reflects impact of the $16.0 million allowance for potential impairment of the Whitby Loan on the Fund's share of Partnership earnings.

CALPINE POWER, L.P.

(unaudited)			2005		
(in 000's)	Total	Q4	Q3	Q2	Q1
Revenue					
Electricity, capacity and thermal	$ 112,073	$ 27,146	$28,554	$27,598	$28,775
Interest – Whitby	3,337	817	837	846	837
Interest – Other	689	213	178	171	127
	116,099	28,176	29,569	28,615	29,739
Expenses					
Operating and maintenance	18,817	5,110	4,638	4,733	4,336
Allowance for impairment of loan to Calpine Canada Whitby Holdings Company	16,000	16,000	–	–	–
Depreciation	21,719	5,424	5,422	5,471	5,402
Accretion	201	51	50	50	50
General and administrative	495	43	137	163	152
Interest	589	119	148	158	164
Foreign Exchange	(78)	7	(50)	(13)	(22)
	57,743	26,754	10,345	10,562	10,082
Net earnings	$ 58,356	$ 1,422	$19,224	$18,053	$19,657
Net earnings per Unit					
Class A Priority Unit	$ 0.8080	$ 0.0307	$0.2625	$0.2455	$0.2694
Class B Subordinated Unit	$ 0.7331	$(0.0077)	$0.2502	$0.2372	$0.2535

(unaudited)			2004		
(in 000's)	Total	Q4	Q3	Q2	Q1
Revenue					
Electricity, capacity and thermal	$ 101,541	$28,467	$27,827	$18,490	$26,757
Interest – Whitby	3,393	846	855	846	846
Interest – Other	412	143	129	72	68
	105,346	29,456	28,811	19,408	27,671
Expenses					
Operating and maintenance	19,603	4,836	3,573	6,417	4,777
Depreciation	20,588	5,104	5,504	4,777	5,203
Accretion	186	46	47	47	46
General and administrative	699	604	82	10	3
Interest	242	107	88	47	–
Foreign Exchange	16	157	194	(209)	(126)
	41,334	10,854	9,488	11,089	9,903
Net earnings	$ 64,012	$18,602	$19,323	$ 8,319	$17,768
Net earnings per Unit					
Class A Priority Unit	$ 0.8795	$0.2556	$0.2654	$0.1034	$0.2550
Class B Subordinated Unit	$ 0.8201	$0.2383	$0.2477	$0.1320	$0.2022

The Partnership's revenues are subject to seasonality from its Island Facility, which earns more revenue during winter months due to increased requested output from contract counterparties.

Auditors' Report

To the Unitholders of Calpine Power Income Fund

We have audited the consolidated balance sheets of Calpine Power Income Fund (the "Fund") as at December 31, 2005 and 2004 and the consolidated statements of earnings and unitholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Calpine Canada Power Ltd., as administrator of the Fund. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Canada
April 19, 2006

Chartered Accountants

Report of Management

The consolidated financial statements are the responsibility of the Management of Calpine Canada Power Ltd., and have been approved by the Fund's Board of Trustees. These consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles ("GAAP") and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Report is consistent with the consolidated financial statements.

Management has prepared Management's Discussion and Analysis, which is based on Calpine Power Income Fund and Calpine Power, L.P.'s financial information prepared in accordance with GAAP and should be read in conjunction with the consolidated financial statements and accompanying notes.

Management has developed and maintains a system of internal controls and believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Trustees of the Calpine Power Income Fund has appointed an Audit Committee, which meets periodically during the year with Management, and the external auditors independently and as a group. The Audit Committee reviews the consolidated financial statements with Management and the external auditors before the consolidated financial statements are submitted to the Board of Trustees for approval. The external auditors have free access to the Audit Committee without obtaining approval from Management.

The independent external auditors, Deloitte & Touche LLP, have been appointed by the Board of Trustees to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, Calpine Power Income Fund and Calpine Power, L.P.'s financial position, results of operations and cash flows in accordance with GAAP. The following reports of Deloitte & Touche LLP outline the scope of their examination and their opinion of the consolidated financial statements.

Toby Austin
President & CEO
Calpine Canada Power Ltd.

Geoffrey Krause
Vice President & CFO
Calpine Canada Power Ltd.

April 19, 2006

Consolidated Balance Sheets

As at December 31 (thousands)	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	$ 16,797	$ 8,138
Restricted cash, current portion (Note 7)	5,597	4,490
Distributions receivable	4,519	3,890
Accounts receivable	271	566
Loan to Calpine Canada Power Ltd., current portion (Note 4)	2,337	9,083
Net investment in lease, current portion (Note 5)	20,712	1,583
Loan to Calpine Power, L.P. (Note 6)	–	11,993
Prepaid expenses	221	257
	50,454	40,000
Investment in Calpine Power, L.P. (Note 9)	465,627	476,649
Net investment in lease, less current portion (Note 5)	131,843	135,521
Loan to Calpine Canada Power Ltd., less current portion (Note 4)	29,851	32,188
Restricted Cash, less current portion (Note 7)	–	1,114
Land	1,870	1,870
Deferred financing costs (Notes 7 and 8)	2,052	3,922
	$ 681,697	$ 691,264
Liabilities and Unitholders' Equity		
Current Liabilities		
Distributions payable	$ 5,051	$ 5,001
Accounts payable and accrued liabilities	1,669	1,959
Accrued interest on long-term debt (Note 7)	11,937	–
Long-term debt, current portion (Note 7)	21,216	12,035
Borrowing under Credit Facility (Note 8)	–	8,000
	39,873	26,995
Future income tax (Note 10)	6,445	3,589
Asset retirement liability (Note 11)	1,358	1,298
Long-term debt, less current portion (Note 7)	72,041	83,990
	119,717	115,872
Contingencies (Note 15)		
Unitholders' equity (Note 12)	561,980	575,392
	$ 681,697	$ 691,264

See accompanying notes to the consolidated financial statements

Approved by the Trustees of Calpine Commercial Trust on behalf of Calpine Power Income Fund

CCT Trustee

Robert B. Hodgins

CCT Trustee

Consolidated Statements of Earnings and Unitholders' Equity

Years ended December 31 (thousands, except for Trust Units and per Trust Unit amounts)	2005	2004
Revenues		
Equity earnings from Calpine Power, L.P.	$ 42,017	$ 45,734
Finance income	18,519	16,496
Interest and other income	7,932	6,095
	68,468	68,325
Expenses		
Management and administrative	3,660	3,096
Amortization	1,870	1,209
Accretion	101	75
Interest on long-term debt	12,363	8,236
Interest	603	761
Foreign exchange loss (gain)	(340)	84
Initial lease costs	–	4,191
	18,257	17,652
Earnings Before Future Income Taxes	50,211	50,673
Future income taxes	3,017	3,809
Net Earnings	47,194	46,864
Unitholders' Equity, Beginning of Year	575,392	485,001
Trust Units issued (Notes 3 and 12)	–	99,845
Distributions	(60,606)	(56,318)
Unitholders' Equity, End of Year	$ 561,980	$ 575,392
Weighted average number of Trust Units outstanding	61,742,288	58,042,861
Net earnings per Trust Unit (Note 12)	$ 0.7644	$ 0.8074

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31 (thousands)	2005	2004
Operating Activities		
Net earnings	$ 47,194	$ 46,864
Adjustments for non-cash items:		
Equity earnings from Calpine Power, L.P.	(42,017)	(45,734)
Finance income	(18,519)	(12,305)
Amortization	1,870	1,209
Amortization of discount on loan to Calpine Canada Power Ltd.	(1,602)	(1,316)
Accretion	101	75
Foreign exchange loss (gain)	(340)	84
Future income taxes	3,017	3,809
Lease receipts	–	16,392
Distributions received from Calpine Power, L.P.	52,408	54,692
Cash from operations before working capital	42,112	63,770
Change in non-cash working capital (Note 13)	12,404	(1,885)
Net cash provided by operating activities	54,516	61,885
Investing Activities		
Receipt of principal on loan to Calpine Canada Power Ltd.	10,686	8,014
Loan to Calpine Power, L.P.	(4,007)	(11,993)
Receipt of principal on loan to Calpine Power, L.P.	16,000	–
Acquisition of King City Facility Lease and Land (Note 3)	–	(154,658)
Loan to Calpine Canada Power Ltd.	–	(47,968)
Net cash provided by (used in) investing activities	22,679	(206,605)
Financing Activities		
Distributions paid	(60,556)	(55,399)
Repayment on Credit Facility	(8,000)	–
Borrowing under Credit Facility	–	8,000
Payment of principal on long-term debt	–	(2,770)
Issuance of long-term debt (Note 3)	–	111,111
Financing costs	–	(2,131)
Trust Units issued (Note 3)	–	99,845
Net cash provided by (used in) financing activities	(68,556)	158,656
Foreign exchange gain (loss) on cash held in a foreign currency	13	(231)
Increase in Cash and Cash Equivalents	8,652	13,705
Cash and cash equivalents, beginning of year	13,742	37
Cash and Cash Equivalents, End of Year	$ 22,394	$ 13,742
Represented by:		
Cash and cash equivalents	$ 16,797	$ 8,138
Restricted cash, current portion	5,597	4,490
Restricted cash, less current portion	–	1,114
	$ 22,394	$ 13,742
Supplementary Cash Flow Information		
Taxes paid	$ –	$ –
Interest received	$ 6,274	$ 4,369
Interest paid	$ 356	$ 8,997

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2005 and 2004

(Tabular amounts are in thousands except for Trust Units and per Trust Unit amounts)

1. BUSINESS AND STRUCTURE OF THE FUND

Calpine Power Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Alberta pursuant to the Fund Trust Indenture dated July 16, 2002, as amended, supplemented or restated from time-to-time. The Fund was created to acquire or develop facilities in accordance with established acquisition and investment guidelines. The Fund owns 100% of Calpine Commercial Trust ("CCT"), a wholly-owned unincorporated open-ended trust, established under the laws of the Province of Alberta to hold directly the Fund's interest in Class A Priority Units of Calpine Power, L.P. (the "Partnership"), a limited partnership acquired on August 29, 2002, which owns 100% of the Island Cogeneration Facility and the Calgary Energy Centre and a term loan with Calpine Canada Whitby Holdings Company, which owns a 50% interest in the Whitby Cogeneration Facility (collectively referred to as the Partnership). 1021446 Alberta Ltd., a wholly-owned subsidiary of CCT, acts as general partner of the Partnership, the rights and duties of which have been delegated broadly to Calpine Canada Power Ltd. (the "Manager"). In 2004 the Fund indirectly acquired through CCT, King City LP ("KCLP") which leases to Calpine King City Cogen LLC ("Calpine King City") a combined cycle cogeneration facility under a long-term lease arrangement. The Fund also provides, through its wholly-owned subsidiary CPIF Holdings Ltd., administrative services to the Manager.

The Manager, an indirect wholly-owned subsidiary of Calpine Corporation ("Calpine"), is responsible for overseeing the management and administration of the Fund. On December 20, 2005, the Manager filed for voluntary reorganization under the Canadian Companies Creditors Arrangement Act ("CCAA").

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared by the Manager in accordance with Canadian generally accepted accounting principles and include the following:

A) Basis of Consolidation

The consolidated financial statements include the accounts of the Fund, CPIF Holdings Ltd., CCT, 1021446 Alberta Ltd., CCT Holdings (US) Ltd., King City Ltd. LLC, and KCLP. All inter-company transactions are eliminated.

B) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

C) Cash and Cash Equivalents

The Fund's short-term investments that mature in three months or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

D) Restricted Cash

The Fund is required to maintain cash balances that are restricted by provisions of the King City Loan (Note 3 and 7). These amounts are held by depository banks in order to comply with contractual provisions requiring reserves for payments such as for debt service. Funds that will be used to satisfy obligations due during the next twelve months are classified as current restricted cash, with the remainder classified as non-current restricted cash. Restricted cash is invested in accounts earning market rates; therefore the carrying value approximates fair value.

E) Investment in Calpine Power, L.P.

The Fund's 70% partnership investment in the Partnership is accounted for using the equity basis of accounting whereby the investment cost increases or decreases for net earnings or loss and reduced by cash distributions paid to the Fund.

The Fund evaluates the carrying value of its investment based on the projection of undiscounted pre-interest expense and pre-tax expense cash flows annually or whenever events change. In the event a decrease in the value of the investment is other than a temporary decline, the investment is written down to its estimated fair value.

F) Financial Instruments

The carrying value of the Fund's financial instruments including current assets, loan to the Manager, current liabilities and long-term debt approximate fair value, except as otherwise disclosed.

G) Revenue Recognition

Revenues are derived from equity earnings as earned by the Partnership, finance income from the King City Lease and interest on the loan to the Manager. Finance income is recognized over the lease term in a manner that will provide a constant rate of return on the net investment in the lease. Interest revenue is recorded as earned.

H) Asset Retirement Obligation

The Fund recognizes a liability for the future retirement obligations associated with the King City Facility. These obligations are initially measured at fair value, which is the discounted future cost of the liability. The liability accretes until the date of expected settlement of the retirement obligations.

I) Income Taxes

Under the terms of the Income Tax Act (Canada), each of the Fund and CCT, as trusts, will not be subject to income taxes to the extent that its taxable income and taxable capital gains are paid or payable to its unitholders. Accordingly, no provision for current or future income taxes for the Fund or CCT is made. In addition, as each of the Fund and CCT is required to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable to it, and each of the Fund and CCT intends to continue not to be subject to income taxes, each of the Fund and CCT is not subject to the recommendations of The Canadian Institute of Chartered Accountants Handbook Section 3465.

The Fund's other wholly-owned incorporated subsidiaries are subject to corporate income taxes as computed under the applicable tax regimes and follow the liability method of accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings during the period that such a change is substantively enacted.

J) Net Earnings per Trust Unit

Net earnings per Trust Unit are calculated by dividing net earnings by the weighted average number of Trust Units outstanding. There are no dilutive elements.

K) Foreign Currency Translation

The Fund's foreign subsidiaries are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in US currency are translated into Canadian currency at period-end exchange rates, whereas non-monetary assets and liabilities are translated at historical rates in effect at the transaction date. Revenues and expenses of these foreign operations are translated at the average rate of exchange in effect during the applicable period. Any foreign currency gains or losses resulting from such translation are reflected in the consolidated statement of earnings.

L) Measurement Uncertainty

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended.

The valuation, measurement and classification of the loan to Calpine Canada Power Ltd., are based upon an assessment of the Manager's ability to make scheduled and interest repayments, including estimates of future B unit distributions from the Partnership to the Manager, estimates of the quality of the King City Lessee cash flows that have been pledged as security and an assessment of the likelihood that the stay of proceedings against the Manager arising from CCAA protection will be lifted to enable enforcement of such security. Changes to these factors could impact the Fund's ability to collect this loan, an impairment in value could be recognized and a resultant write-down could occur.

3. ACQUISITION OF KING CITY FACILITY

On May 19, 2004 the Fund acquired a 120 megawatt natural gas-fired, combined cycle cogeneration facility (the "King City Facility") located in King City, California, which is leased to Calpine King City. The Fund acquired the King City Facility from an unrelated third party. In addition, the Fund through its wholly-owned subsidiary, CCT, loaned $48.0 million ($53.4 million face value) to the Manager of the Fund.

The acquisition by the Fund of the King City Facility and the loan to the Manager (collectively, the "King City Transaction") resulted in the Fund acquiring two different cash streams. One cash stream is a 24-year lease (the "Lease") of the King City Facility to Calpine King City, a wholly-owned subsidiary of Calpine. The King City Facility has a long-term Power Purchase Agreement supported by the underlying credit of an investment grade utility. The other cash stream arises from the interest and principal stream from the loan issued to the Manager (Note 4). The loan is repayable over a six year term with interest at a rate of 13% per annum.

The Fund financed the King City Transaction using a combination of a public offering of approximately $99.8 million of Trust Units of the Fund (the "Offering") and a non-recourse loan facility totaling US$82 million provided by a third party lender (the "King City Loan").

The allocation of the purchase price between assets and liabilities acquired is as follows:

Consideration:	
Issuance of 9,740,937 Trust Units at $10.25 per Trust Unit	$ 99,845
Non-recourse long-term debt (US$82,000)	111,111
	$ 210,956
Net Assets Acquired:	
Land	$ 1,870
Net investment in lease	154,169
Asset retirement obligation	(1,381)
	154,658
Promissory note (Face Value $53,428) (Note 4)	47,968
Deferred financing costs on non-recourse long-term debt	2,060
Establishment of segregated account (US$ 4,628)	6,270
	$ 210,956

4. LOAN TO CALPINE CANADA POWER LTD.

As part of the King City Transaction, the Fund loaned to the Manager $48.0 million of the funds received from the Offering (Note 3) as evidenced by a promissory note and certain security. This loan has a face value of $53.4 million, matures in 2010 and bears interest at a fixed rate of 13% per annum with interest and principal payable monthly under the schedule provided in the loan agreement. The discount on the face value is amortized to interest income over the term of the note. On December 20, 2005, the Manager filed for voluntary reorganization under the Canadian Companies Creditors Arrangement Act ("CCAA"). As a result of these reorganization proceedings an event of default has occurred under the terms of the loan.

The loan is a full recourse obligation of the Manager and is secured by a pledge of the Manager's limited partnership interest in the Partnership, including the Manager's right to receive distributions under the Class B Subordinated Units of Calpine Power L.P. In addition, Calpine King City has provided the Fund with a limited recourse guarantee of the Manager's obligations under the loan and granted the Fund a subordinated security interest in the Lessee's annual cash from operations.

A schedule of principal receipts as outlined in the agreement is noted below:

Schedule of principal receipts and discount amortization		Principal		Discount		Total
2006	$	10,686	$	(1,180)	$	9,506
2007		10,686		(757)		9,929
2008		8,014		(383)		7,631
2009		2,672		(163)		2,509
2010		2,671		(58)		2,613
As at December 31, 2005	$	34,729	$	(2,541)	$	32,188

As at December 31, 2005 the fair market value of the loan, based upon expected collections from Calpine Canada Power Ltd., and without giving effect to the estimated value of the underlying security of the loan, was determined to be approximately $2.3 million (December 31, 2004 – $45.8 million). Management estimates the loan to be fully collectible based upon the guarantee and security in place subject to the lifting of the stay of proceedings against the Manager, currently in effect until July 20, 2006. As at March 31, 2006, all scheduled principal and interest payments had been received. Amounts due and collected up to March 31, 2006 have been classified as current with the remaining balance classified as long-term.

5. NET INVESTMENT IN LEASE

The Fund acquired the King City Facility (Note 3), and leased the facility to Calpine King City for a twenty-four year term. The plant acquisition has been accounted for as a net investment in the lease given that the Fund's economic recovery of the investment is substantially achieved from the lease. The Fund recognizes finance income over the lease term on a basis that provides a constant rate of return on the net investment in the lease. Lease payments are denominated in both US and Canadian currency and are receivable annually on December 31. The US dollar lease receipts are expected to offset substantially all foreign exchange risk associated with satisfying future obligations under the Fund's related US dollar denominated borrowings (Note 7).

The 2005 lease payment of $19.5 million due December 31, 2005 was received on January 3, 2006. The amount of the net investment in the lease maturing within the next 12 months has been classified as current.

Net Investment in Lease includes the following as at December 31, 2005:

Total minimum lease payments receivable	$ 314,747
Unguaranteed residual value	172,824
Unearned finance income	(335,016)
	152,555
Net investment in lease, current portion	(20,712)
Net investment in lease, less current portion	$ 131,843

Future minimum lease payments receivable under the lease are as follows:

2006 (*)	$ 38,672
2007	19,533
2008	19,542
2009	20,938
2010 and beyond	216,062
	$ 314,747

(*) includes lease receipts due December 31, 2005 of $19.5 million received January 3, 2006

6. LOAN TO CALPINE POWER, L.P.

During the year ended December 31, 2004, the Fund loaned $12.0 million to the Partnership to finance the capital upgrades at the Island Cogeneration Facility. In January 2005, the Fund loaned an additional $4.0 million to the Partnership to complete the financing of the capital upgrade. Interest was charged at a rate of 10 basis points over the rate charged under the Credit Facility. Interest on the loan averaged 4.78% for 2005 (2004 – 4.44%). In 2005, with final payment on December 16, 2005, the Partnership repaid $16.0 million to the Fund in full satisfaction of the loan. As at December 31, 2004, the fair market value of the loan was determined to $12.2 million.

7. LONG-TERM DEBT

In connection with the acquisition of the King City Facility in 2004, the Fund entered into a loan US$82.0 million from a third party lender (Note 3). This loan matures in 2019 and bears interest at a fixed interest rate of 12.8% per annum with principal and interest payments due annually on December 31. The portion of the loan maturing within the next 12 months has been classified as current. Principal payments of $11.7 million and interest payments of $11.9 million relating to this loan were paid on January 3, 2006. The loan is a full recourse obligation of KCLP, a wholly-owned subsidiary of the Fund, but non-recourse to the Fund and is secured by a first preferred security interest in all assets owned by KCLP without limitation. As at December 31, 2005, the fair market value of the loan was determined to be approximately US$91.5 million (December 31, 2004 – US$78.8 million).

Deferred financing costs of US$1.5 million were incurred with respect to arranging the loan and are being amortized over the 15 year term of the loan.

Under the terms of the arrangement, the Fund established a segregated cash account in 2004 of US$4.6 million (CDN $5.6 million) with proceeds received from the Offering. A portion of this cash amount together with interest earned thereon, totaling $4.1 million, was used to partially satisfy its obligations to the third party lender for principal and interest payments under the terms of the debt on January 3, 2006. The remaining balance will be used for the same purpose on December 31, 2006.

Future principal payments	US $	CDN $
2006 (*)	$ 18,132	$ 21,216
2007	7,123	8,335
2008	5,535	6,476
2009	1,857	2,173
2010	4,891	5,723
2011 and beyond	42,163	49,334
	$ 79,701	$ 93,257

(*) includes principal repayments due December 31, 2005 of $11.7 million made January 3, 2006

8. CREDIT FACILITY

In October 2003, the Fund, through CCT, obtained a $120 million extendible revolving term Credit Facility. The facility had a three year term and was split into two tranches. One tranche of $90 million (the "Acquisition Tranche"), was available only to finance acquisitions and the second tranche of $30 million (the "Working Capital Tranche") was available for acquisitions as well as for general corporate purposes. Costs of $3.3 million related to establishing the Credit Facility are being amortized over a three year term commencing October 2003. In December 2005, the Fund canceled the Acquisition Tranche as it had remained undrawn since inception and was considered not likely to be used in the near future.

The facility can be drawn upon in Canadian or US dollars and has varying interest rates based on prevailing market-based interest rates, and the ratio of consolidated debt to adjusted consolidated earnings. Standby fees range from 45 basis points to 75 basis points, depending on the ratio of consolidated debt to adjusted consolidated earnings and are charged on the undrawn balance of the facility. During the year ended December 31, 2004, $8.0 million had been drawn down on the facility. Interest on the current balance of the facility averaged 4.34% for the year ended December 31, 2004. Due to the short-term nature and floating interest rate on the Credit Facility borrowing, carrying value approximates fair value. The Working Capital Tranche expires October 3, 2006. The facility was fully repaid in 2005 and was undrawn at December 31, 2005.

Security for the facility consists of a floating charge and a security interest over CCT's and the Partnership's current and after acquired real and personal property, and is subject to certain financial covenants measured quarterly. If not renewed, any outstanding balance on the Credit Facility must be settled by October 2006.

Deferred financing costs incurred totaled $3.3 million and are being amortized over the initial term of the Credit Facility ending October 2006, except for $0.6 million that was expensed in December 2005 upon cancellation of the acquisition tranche.

9. INVESTMENT IN CALPINE POWER, L.P.

On August 29, 2002, the Fund purchased 52,001,351 Class A Priority Units of the Partnership representing a 70% partnership interest.

As at December 31, 2005 and 2004, the equity investment in Calpine Power, L.P. was comprised as follows:

Investment in Calpine Power, L.P. at December 31, 2003	$ 484,734
Equity Earnings from Calpine Power, L.P.	45,734
Distributions received and receivable from Calpine Power, L.P.	(53,819)
As at December 31, 2004	476,649
Equity Earnings from Calpine Power, L.P.	42,017
Distributions received and receivable from Calpine Power, L.P.	(53,039)
As at December 31, 2005	$ 465,627

10. INCOME AND OTHER TAXES

As the Fund operates in Canada and the United States, its income is subject to various rates of taxation.

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

	2005	2004
Income before income taxes		
Canada	$ 44,182	$ 46,314
United States	6,029	4,359
	$ 50,211	$ 50,673
Federal and provincial statutory rates	33.62%	33.87%
Tax at statutory rates	16,881	17,163
Income not subject to tax	(14,696)	(13,891)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	541	661
Valuation allowance on future tax asset	349	–
Other	(58)	(124)
Income tax expense	$ 3,017	$ 3,809

Details of income tax expense are as follows:

	2005	2004
Canada		
Current	$ –	$ –
Future	(16)	20
United States – Federal		
Current	–	–
Future	2,363	3,133
United States – State		
Current	–	–
Future	670	656
Income tax expense	$ 3,017	$ 3,809

The components of future income assets and liabilities are as follows:

	2005	2004
Future tax liabilities		
Capital assets book value in excess of undepreciated cost of capital	$ 7,638	$ 2,902
Finance incomes	4,958	1,540
Other	45	–
Total future tax liabilities	$ 12,641	$ 4,442
Future tax assets		
Loss carryforwards	6,196	841
Other	–	12
Net future tax liability	$ 6,445	$ 3,589

11. ASSET RETIREMENT OBLIGATION

The Fund has recognized a liability for the future retirement obligations associated with the King City Facility (Note 3). This obligation was measured at fair value, which is the discounted future cost of the liability. This fair value was capitalized as part of the net investment in lease. The liability accretes until the date of expected settlement of the retirement obligation. The Fund estimates the undiscounted amount of cash required to settle the asset retirement obligation will be approximately US$7.6 million, which will be incurred in 2028. A discount rate of 8 ½% and assumed inflation of 2 ¼% were used to calculate the carrying value of the asset retirement obligation.

As at December 31, 2005, the Asset Retirement Liability is comprised of the following:

As at May 19, 2004	$ 1,381
Accretion expense	75
Foreign exchange	(158)
As at December 31, 2004	$ 1,298
Accretion expense	101
Foreign exchange	(41)
As at December 31, 2005	$ 1,358

12. UNITHOLDERS' EQUITY

The Fund Trust Indenture provides that an unlimited number of Trust Units may be authorized and issued. Each Trust Unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Trust Units are of the same class with equal rights and privileges.

The Trust Units are redeemable at the holder's option at an amount equal to the lesser of: (a) 90% of the weighted average price per Trust Unit during the period of the last 10 days during which the Trust Units were traded on the Toronto Stock Exchange; and (b) the closing market price at the date of redemption as defined in the Trust Indenture. Redemptions are subject to a maximum of $250,000 in cash redemptions in any particular month. Redemptions in excess of this amount will be paid by way of a distribution of notes issued by CCT to the Fund. There have been no redemptions to date.

On May 19, 2004, the Fund completed an offering of 9,740,937 Trust Units for total proceeds of $99.8 million to acquire the King City Facility (Note 3).

	Number of Units	Amount
UNITHOLDERS' EQUITY		
As at December 31, 2003	52,001,351	$ 485,001
Issued for King City Transaction (Note 3)	9,740,937	99,845
Net earnings	–	46,864
Distributions declared	–	(56,318)
As at December 31, 2004	61,742,288	$ 575,392
Net earnings	–	47,194
Distributions declared	–	(60,606)
As at December 31, 2005	61,742,288	$ 561,980

Net earnings per Trust Unit for the year ended December 31, 2005 have been calculated based on a weighted average of 61,742,288 Trust Units (58,042,861 weighted average Trust Units for the year ended December 31, 2004). There are no other dilutive securities.

13. CHANGE IN NON-CASH WORKING CAPITAL

Change in non-cash working capital	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Operating Activities		
Accounts receivable	$ 295	$ (63)
Prepaid expenses	36	(45)
Interest payable on long-term debt	12,363	–
Accounts payable	(290)	(1,777)
	$ 12,404	$ (1,885)

14. RELATED PARTY TRANSACTIONS

As at December 31, 2005 and December 31, 2004 the Fund had the following balances receivable from (payable to) related parties in the normal course of business:

	As at Dec. 31, 2005	As at Dec. 31, 2004
Distributions receivable from the Partnership	$ 4,519	$ 3,890
Accounts receivable from the Partnership	62	64
Accounts receivable from Calpine	64	–
Accounts receivable from the Manager	25	98
Ground Lease due from Calpine	117	95
Loan to Manager	32,188	41,271
Net investment in lease due from Calpine	152,555	137,104
Loan and interest receivable from the Partnership	–	12,235
Accounts payable to Calpine	(372)	(55)
Accounts payable to the Partnership	(216)	(28)
Accounts payable to the Manager	(40)	(781)

The Manager is a wholly-owned subsidiary of Calpine. The Manager holds Class B Subordinated Units representing a 30% interest in the Partnership.

The Fund and the Manager have entered into a 20-year Administration Agreement expiring in 2022 and CCT and the Manager have entered into a 20-year Management Agreement expiring 2022. Pursuant to these agreements, the Manager administers the Fund and manages CCT. In consideration for services provided under the Administration Agreement with the Fund, the Manager is entitled to expense reimbursement and receives a monthly fee which is adjusted annually based upon the increase in the Canadian Consumer's Price Index. In consideration for services provided under the Management Agreement with CCT, the Manager is entitled to expense reimbursement and will receive: (i) a monthly base fee subject to annual adjustment based on the increase in the Canadian Consumer's Price Index and (ii) an incentive fee payable annually and equal to 20% of the amount by which the excess distributable cash of the Partnership exceeds a specified threshold amount.

During the year ended December 31, 2005, a total of $0.2 million (year ended December 31, 2004 – $0.2 million) was paid or payable to the Manager for administrative and incentive fees under the administration and management agreements.

The Fund advanced $16.0 million to the Partnership to pay for capital upgrades at the Island Cogeneration Facility. For the year ended December 31, 2005, $0.6 million (year ended December 31, 2004 – $0.2 million) of interest income on this amount was recognized by the Fund on this loan.

For the year ended December 31, 2005, the Fund recognized finance and rental income of $18.5 million (year ended December 31, 2004 – $12.3 million) from the King City Facility lease with Calpine King City.

Interest earned with respect to the loan to Calpine Canada Power Ltd. amounted to $6.9 million for the year ended December 31, 2005 (year ended December 31, 2004 – $5.6 million).

15. ECONOMIC DEPENDENCE, OTHER BUSINESS RISKS AND CONTINGENCIES

For purposes of declaring distributions, the Fund is primarily dependent on cash distributions received from the Partnership, the King City Facility and the Manager Loan. For the year ended December 31, 2005, the Partnership's primary sources of cash were derived from the sale of electricity by the Island Cogeneration Facility to BC Hydro pursuant to the electricity purchase agreement and from the Calgary Energy Centre pursuant to the tolling agreement between Calpine Energy Services Canada Partnership ("CESCP") and the Calgary Energy Centre ("Tolling Agreement"). The Fund benefited from this tolling agreement, which was above the market for merchant power pricing in Alberta.

Contract Risk The amount of Distributable Cash of the Fund available for distribution to Unitholders is highly dependent upon parties to certain agreements fulfilling their contractual obligations to the Fund or its affiliates. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions by the Fund. On January 16, 2006 CESCP repudiated the Tolling Agreement and paid the Partnership tolling revenues applicable to the period from the date of filing for CCAA protection to the date of repudiation, but did not pay the December 1 to December 20, 2005 toll. The Partnership will have a claim against CESCP and Calpine in respect of this repudiation, the amount of which and value to be realized are yet to be determined and are subject to the stay of proceedings against CESCP currently in place in the CCAA and the automatic stay against Calpine under the Chapter 11 proceedings.

The Partnership has entered into a short-term tolling arrangement with EPCOR Merchant and Capital L.P. which will provide tolling revenue until June 30, 2006 at rates significantly lower that the repudiated contract, reflecting current Alberta market conditions. This reduction in tolling revenue of the Partnership significantly reduces future cash available to make distributions to the limited partners of Partnership. The Partnership and Manager have commenced a process to re-market the generation capacity of the Calgary Energy Centre on a long-term basis. If, for any reason, the Partnership and Manager are unable to re-contract the tolling capacity or it is re-contracted at rates lower than the EPCOR short-term toll, Distributable Cash of the Partnership will decline further and Distributable Cash of the Fund could decline. In addition, the carrying value of the Calgary Energy Centre may not be fully recoverable.

Credit Risk The Fund is exposed to credit-related losses in the event of non-performance by counterparties. The Fund deals with certain counterparties that are currently in reorganization proceedings, including Calpine, the Manager and CESCP. On January 16, 2006 CESCP repudiated the Calgary Energy Centre Tolling Agreement and the Partnership did not receive the December 1 to December 20 2005 tolling revenues. The Fund has not had any further non-performance by these counterparties but continues to monitor credit risk on an ongoing basis.

Potential Events of Default under King City Lease and Related Non-Recourse Loan As at the date of release of the financial statements, a potential event of default under the Lease and consequential possible event of default under the King City Loan arose from the Chapter 11 proceedings initiated by Calpine and Calpine's role as operator of the King City Facility. To

prevent these potential events of default, the Lessee has the right to replace the operator within a specified period, subject to the consent of the Lender and the Lessor and satisfying certain other requirements in the Lease. Further, each of the Lessor and the Lender has a similar right to replace the operator. The Lender has entered into a Forbearance Agreement pursuant to which it has agreed not to take any enforcement action under the Lease and Loan agreements by virtue of Calpine being included in the Chapter 11 proceedings, provided the operating and maintenance agreement remains in effect, Calpine continues to meet its obligations thereunder, Lessee is not included in a bankruptcy proceeding and no other defaults exist. The Forbearance Agreement expires on January 1, 2007. Should this event of default under the Lease fail to be avoided or remedied after the Forbearance Agreement expires, an event of default could occur under the King City Loan that permits the Lender to accelerate the payment obligations under the King City Loan and to foreclose the interest of the Lessor in the King City Facility. Negotiations are currently underway between the Lessee, the Lessor and the Lender to prevent these events of default, but have not been resolved as at the date of release of the financial statements. Based on these negotiations, the Manager believes that the forbearance period will be extended or that an agreement will be entered into to avoid the occurrence of the aforementioned event of default under the Lease and King City Loan.

It is possible that the Chapter 11 filing or voluntary reorganization undertaken by Calpine and its subsidiaries may result in further events of default under the Lease or King City Loan that cannot be avoided or remedied, in which case an event of default under the King City Loan could occur that permits the Lender to accelerate payment obligations under the King City Loan and to foreclose the interest of the Lessor in the King City Facility.

Collectibility of Loans The Fund is exposed to default risk on the Manager Loan as the Manager filed under CCAA on December 20, 2005. While the Fund is fully paid up to March 31, 2006 on interest and principal due on this loan, it is uncertain of future collection on this loan.

It is expected that the Manager will be able to fund its obligations to the Fund under the Manager Loan only through distributions paid to the Manager on its Class B Subordinated Units of the Partnership. The Partnership pays distributions on the Class B Subordinated Units only after satisfying its distribution obligations to the Fund, as the sole owner of the Class A Priority Units. As a result, and in light of the re-marketing of long-term capacity of the Calgary Energy Centre, there can be no guarantee that the Partnership will distribute sufficient funds to the Manager, as the owner of the Class B Subordinated Units, to allow the Manager to meet its payment obligations under the Manager Loan. For December 2005 to February 2006, Class B Subordinated Unit distributions declared were reduced to match the required principal and interest payments on the Manager Loan. In March 2006, no distributions for Class B Subordinated Units were declared, and as a result no principal and interest payment from the Manager is expected in April 2006.

Calpine King City is not subject to Chapter 11 proceedings, and its obligations under the limited recourse guarantee and subordinated security are not subject to any stay in Chapter 11 proceedings or subject to compromise in those proceedings. However, given the subordinated

nature of these obligations CCT's enforcement rights shall be subject to the lenders rights under the King City project financing. The Manager's obligations under the Manager Loan and related security may be compromised under the CCAA proceedings. Any such compromise is not expected to impact the aforementioned obligations of Calpine King City in respect of the Manager Loan. Management estimates that the guarantee and security in place on the loan support collection. This guarantee and security cannot currently be enforced due to the current CCAA stay of proceedings.

In the event that CCT seeks repayment of the Manager Loan through a claim under the subordinated guarantee provided by the Lessee, CCT's claim is limited to funds held in restricted accounts under the King City project financing that are otherwise able to be distributed to the Lessee. Under the applicable depositary arrangements, these funds are available for release on an annual basis in January of each year and only if applicable requirements in the depositary arrangements are satisfied, including the requirement that no default or event of default under the Lease or project financing has occurred or will result from the transfer of funds into the Lessee distribution account.

Any defaults on this loan, or delays in ultimate collection of principal and interest, including the Fund's ability to enforce the guarantee and security on the loan, could adversely affect the Fund's Distributable Cash.

The Partnership holds a note receivable (the "Whitby Loan") from Calpine Canada Whitby Holdings Company ("CCWHC"), of which $37.7 million of principal and interest was outstanding at December 31, 2005. CCWHC was not an applicant in the December 20, 2005 filing for CCAA protection. Calpine Canada Power Ltd. has advised the Fund of its understanding that there is an intercompany loan of approximately $32.7 million payable by CCWHC to Calpine Canada Power Ltd., the terms of which have not been formally documented at December 31, 2005. Calpine Canada Power Ltd. also advised that Calpine Canada Power Ltd. has considered the intercompany loan to be subordinated to the Whitby Loan and does not expect repayment of the intercompany loan until the Whitby Loan has been paid in full. Calpine Canada Power Ltd. intends to document this subordination through a written agreement; however, such a written agreement is subject to recognition of the Court under the CCAA process to which Calpine Canada Power Ltd. is subject. An application to the Court is expected in the second quarter of 2006. Should the Court fail to recognize the subordination and should Calpine Canada Power Ltd. demand payment of the intercompany loan as a result of its CCAA proceedings, the timing and ultimate collection of the Whitby Loan would be negatively impacted. Accordingly, an allowance of approximately $16 million against the Whitby Loan has been accrued at December 31, 2005 in the Fund's financial statements for this potential impairment. Should the Court recognize the subordination, the Manager estimates that the Whitby Loan would be fully collectible and the allowance for potential impairment would be reversed at that time.

Foreign Exchange Risk Within the Fund, the US dollar lease receipts from Calpine King City are expected to substantially offset all foreign exchange risk associated with satisfying future obligations under the US dollar King City Loan.

Loss of QF Status The maintenance of Qualifying Facility ("QF") status at the King City Facility is dependent upon the King City steam host taking a sufficient amount of thermal energy from the King City Facility under the King City Steam Sale Agreement ("King City SSA") and related agreements. If the King City SSA and related agreements were terminated or the King City steam host failed to take sufficient amount of thermal energy to ensure the King City Facility retained its QF status, the Fund would seek to replace King City steam host as the thermal energy customer for the King City Facility to retain its QF status. No assurance can be given that securing another steam host or alternative steam use would be possible and feasible. The loss of QF status by King City Facility is a lease event of default as well as a loan event of default, for which there is no grace period. Such loss of status would entitle the third party lender to exercise remedies under the various financing documents.

Although the King City Steam Host has indicated that it intends to curtail its steam take from the King City Facility in the future, the Steam Host currently takes or has indicated that it intends to take a sufficient amount of thermal energy from the King City Facility to ensure the facility retains its QF status for 2005. The King City Steam Host has now successfully installed a water distillation facility which, when operated, has the ability to take a sufficient amount of thermal energy to ensure the King City Facility retains its QF status. The water distillation facility was completed in the third quarter of 2005. An order was granted in May, 2005 by FERC, pursuant to an application made earlier in the year, approving the recertification of the King City Facility for this alternate use of thermal energy provided that the water is not used in the King City Facility.

Foreign Exchange Risk The US dollar lease receipts from Calpine King City are expected to offset substantially all foreign exchange risk associated with satisfying future obligations under the US dollar third party loan.

As part of normal operations, the Fund and its wholly-owned subsidiaries and partnerships enter a variety of commitments under normal business terms.

	Payments due by period						
Contractual Obligations	Total	2006	2007	2008	2009	2010	2011 and Beyond
Asset retirement liability King City Facility (US$)	$ 7,610	$ –	$ –	$ –	$ –	$ –	$ 7,610
Principal payments on the King City Loan (US$)	79,701	18,132	7,123	5,535	1,857	4,891	42,163

16. SEGMENTED INFORMATION

	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Revenue		
Canada	$ 49,664	$ 51,710
United States	18,804	16,615
	$ 68,468	$ 68,325
Total Assets		
Canada	$ 519,833	$ 544,713
United States	161,864	146,551
	$ 681,697	$ 691,264

17. SUBSEQUENT EVENTS

On January 16, 2006, the CCAA stay of proceedings against the Manager was extended to April 20, 2006 and on April 10, 2006, the stay of proceedings against the Manager was extended further to July 20, 2006.

As a result of reorganization proceedings initiated by Calpine on December 20, 2005, an event of default on the Fund's King City Loan was to occur. To remedy and prevent this default, the Fund needed to provide cash or a letter of credit for US$20 million ("Acceptable Credit Assurance") to the Lender of the King City Loan. On January 19, 2006 all parties reached an agreement whereby the Lessee of the King City Facility agreed to cause approximately US$11.7 million of its cash flow to be held in a depositary account and applied as needed to make specific payments to the Lender. The Lessee also agreed that future cash flows would be added to this depository account until aggregate deposits total US$20 million. The Lender agreed that these Lessee arrangements would satisfy the Acceptable Credit Assurance obligations and avoid any event of default on the King City Loan, so long as the Lessee meets its obligations under these arrangements.

On January 19, 2006, the Fund announced cash distributions for January 2006 had been set at $0.0818 per Trust Unit. The cash distribution for this period was paid on February 20, 2006 to Unitholders of record on January 31, 2006.

On January 30, 2006, the Fund announced that it was in dispute with the Manager and that a court proceeding would be heard in conjuncture with an application by the Manager and certain of its affiliates seeking a declaration that the Manager was exclusively entitled to re-market the tolling capacity of the Calgary Energy Centre. The Manager and these affiliates initiated their court proceedings after the independent Trustees and the directors of the general partner of the Partnership (collectively, the "Independents") advised the Manager that, in their view, the Manager was in a position of material conflict in connection with the marketing of tolling capacity and that the Independents should control the marketing process. The Independents also alleged that certain conduct by the Manager was in "fundamental breach" of its obligations under the Fund's management agreements. The Manager had a contrary view as to whether a material conflict existed and the appropriateness of its conduct. The Manager and these affiliates also sought a declaration that they had the exclusive right to pursue all avenues

to restructure their business, including development and implementation of a court approved marketing process to sell some or all of their property including a subordinated interest in the Partnership owned by the Manager and management agreements whereby the Manager has agreed to manage and administer the Fund.

On February 6, 2006, a verbal decision of the Court approved a protocol providing the Manager with the authority to negotiate both short and long-term tolling arrangements for the Calgary Energy Centre, subject to supervision by the Court appointed monitor and approval by the Independents. The Protocol further provides that any process by the Manager seeking to dispose of the contractual management rights and subordinated interest in the partnership will be subject to further order of the Court.

On February 16, 2006, the Fund announced cash distributions for February 2006 had been set at $0.0818 per Trust Unit. The cash distribution for this period was paid on March 20, 2006 to Unitholder of record on February 28, 2006.

On March 16, 2006, the Fund announced cash distributions for March 2006 had been set at $0.0818 per Unit Trust. The cash distributions for this period will be paid on April 20, 2006 to Unitholders of record on March 31, 2006.

On April 10, 2006, the Court ordered that a claims resolution process be commenced in relation to the affected Calpine subsidiaries in CCAA proceedings. The Partnership will submit a claim as a consequence of the repudiation on January 16, 2006 by a subsidiary of Calpine of the Tolling Agreement with respect to the Calgary Energy Centre.

AUDITORS' REPORT

To the Board of Directors of Calpine Canada Power Ltd.
As Manager of Calpine Power, L.P.

We have audited the consolidated balance sheets of Calpine Power, L.P. ("CLP") as at December 31, 2005 and 2004 and the consolidated statements of earnings and partners' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Calpine Canada Power Ltd., as Manager of CLP. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of CLP as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Canada
April 19, 2006

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31 (thousands)	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 27,903	$ 13,715
Accounts receivable	6,426	10,819
Interest receivable (Notes 3 and 11)	2,221	2,248
Inventory	2,650	2,579
Prepaid expenses	6,465	2,014
	45,665	31,375
Loan to Calpine Canada Whitby Holdings Company, net of $16 million allowance for impairment (2004 – $nil) (Note 3)	19,414	37,404
Capital assets (Note 4)	569,923	591,450
	$ 635,002	$ 660,229
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Distributions payable	$ 5,785	$ 5,651
Accounts payable and accrued liabilities	10,807	8,621
Interest payable	–	242
Loan payable (Note 5)	–	11,993
	16,592	26,507
Asset retirement liability (Note 7)	2,570	2,369
	19,162	28,876
Contingencies (Notes 3 and 11)		
Partners' equity (Note 8)	615,840	631,353
	$ 635,002	$ 660,229

See accompanying notes to the consolidated financial statements

Approved by Calpine Canada Power Ltd.

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND PARTNERS' EQUITY

Years ended December 31 (thousands, except for per Unit amounts)	2005	2004
REVENUES		
Electricity, capacity and thermal (Note 10)	$ 112,073	$ 101,541
Interest – Whitby	3,337	3,393
– Other Income	689	412
	116,099	105,346
EXPENSES		
Operating and maintenance	18,817	19,603
Allowance for potential impairment of loan to Calpine Canada Whitby Holdings Company (Note 3)	16,000	–
Depreciation	21,719	20,588
Accretion	201	186
Interest	589	242
General and administrative	495	699
Foreign exchange loss (gain)	(78)	16
	57,743	41,334
NET EARNINGS	58,356	64,012
PARTNERS' EQUITY, BEGINNING OF YEAR	631,353	644,508
Special distributions	–	(1,697)
Distributions	(73,869)	(75,470)
PARTNERS' EQUITY, END OF YEAR	$ 615,840	$ 631,353
Net earnings per Unit (Note 8):		
Class A Priority Unit	$ 0.8080	$ 0.8795
Class B Subordinated Unit	$ 0.7331	$ 0.8201

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31 (thousands)	2005	2004
Operating Activities		
Net earnings	$ 58,356	$ 64,012
Adjustments for non-cash items:		
Allowance for potential impairment of loan to Calpine Canada Whitby Holdings Company (Note 3)	16,000	–
Depreciation	21,719	20,588
Accretion	201	186
Foreign exchange loss (gain)	(78)	16
Cash from operations before working capital changes	96,198	84,802
Change in non-cash working capital relating to operating activities (Note 6)	1,886	3,417
Net cash provided by operating activities	98,084	88,219
Investing Activities		
Principal repayments from Calpine Canada Whitby Holdings Company	1,990	–
Capital expenditures	(192)	(22,145)
Change in non-cash working capital relating to investing activities (Note 6)	(44)	(323)
Net cash provided by (used in) investing activities	1,754	(22,468)
Financing Activities		
Distributions	(73,735)	(77,484)
Loan payable	4,007	11,993
Payment of principal on loan payable	(16,000)	–
Special distributions on the Class B Subordinated Units	–	(1,697)
Net cash used in financing activities	(85,728)	(67,188)
Foreign exchange gain on cash held in foreign currency	78	(16)
Increase (Decrease) in Cash and Cash Equivalents	14,188	(1,453)
Cash and cash equivalents, beginning of year	13,715	15,168
Cash and cash equivalents, end of year	$ 27,903	$ 13,715
Supplementary Cash Flow Information		
Interest received	$ 6,079	$ 2,412
Interest paid	$ 779	$ –

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2005 and 2004
(Tabular amounts are in thousands except for per Unit amounts)

1. BUSINESS AND STRUCTURE OF THE PARTNERSHIP

Calpine Power, L.P. (the "Partnership") is a limited partnership created under the laws of the Province of Alberta pursuant to the limited partnership agreement between 1021446 Alberta Ltd., as general partner, and Calpine Canada Power Ltd. (the "Manager") and Calpine Commercial Trust ("CCT") as limited partners of the Partnership (the "CLP Partnership Agreement"). The rights and duties of the general partner have been broadly delegated to the Manager. On December 20, 2005, the Manager filed for voluntary reorganization under the Canadian Companies Creditors Arrangement Act ("CCAA").

On January 1, 2005 the Calgary Energy Centre ULC ("CECGP") and the Calgary Energy Centre Limited Partnership ("CECLP") were wound up and all assets and liabilities were assumed by the Partnership.

Under the terms of the operating and maintenance agreement between Calpine Island Cogeneration Limited Partnership ("ICLP"), Calpine Island Cogeneration Project Inc. ("ICPI") and the Manager (the "Island O&M Agreement") and the operating and maintenance agreement between the Partnership and the Manager, formerly between CECGP and CECCP and the Manager, (the "Calgary Energy O&M Agreement") (collectively, the "O&M Agreements"), the Manager operates and maintains the Island Cogeneration Facility and the Calgary Energy Centre for the reimbursement of its costs.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Partnership have been prepared by the Manager in accordance with Canadian generally accepted accounting principles and include the following:

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Partnership, ICLP and ICPI. All inter-company transactions are eliminated.

b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires the Manager to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

c) Cash and Cash Equivalents

The Partnership's short-term investments that mature in three months or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

d) Financial Instruments

The carrying value of the Partnership's financial instruments including current assets, loans receivable and current liabilities approximate fair value, except as otherwise disclosed.

e) Prepaid Expenses

Prepaid expenses include insurance, property taxes and long-term service agreement ("LTSA") payments. At the time of the major overhaul, prepaid LTSA payments are either expensed or capitalized, depending on the nature of the work performed.

f) Inventory

Inventory is comprised of spare parts and other inventory and is carried at the lower of cost or net replacement cost.

g) Capital Assets

The Facilities are accounted for at cost. The cost of a power generation plant and equipment, less estimated salvage value, is depreciated on a straight-line basis over its estimated service life of thirty-five years.

The cost of major overhauls is capitalized and depreciated on a straight-line basis over the estimated service lives, which is usually one to six years.

The Partnership evaluates the impairment of capital assets based on the projection of future net cash flows whenever events and changes in circumstance indicate the carrying amount of such assets may not be recoverable. In the event that the recoverable value of the capital assets decrease below the net book value, the capital assets are written down to their estimated fair value.

h) Income Taxes

The Partnership's wholly-owned subsidiary, ICPI is subject to corporate income taxes as computed under the Income Tax Act (Canada) and the liability method of accounting under CICA section 3465. Under the liability method of accounting, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the difference are expected to reverse. Future income tax expense for 2005 was $1 thousand (2004 – $5 thousand) and has been included in general and administrative expense.

Under the *Income Tax Act* (Canada), a partnership does not pay tax. Rather, the income taxes in respect of the partnership are the responsibility of the individual partners as opposed to the partnership and therefore have not been recorded in the consolidated financial statements.

I) Revenue Recognition

Electricity revenue derived from sales pursuant to the Electricity Purchase Agreement (the "Island EPA") dated September 29, 1998, between ICLP and British Columbia Hydro and Power Authority ("BC Hydro") and the Tolling Agreement, dated effective as of August 29, 2002, between Calpine Energy Services Canada Partnership ("CESCP") and the Partnership (the "Calgary Energy Tolling Agreement") is recorded at the time electrical energy is delivered at the rates set out in the Island EPA and, with respect to the Calgary Energy Tolling Agreement, revenue is recorded monthly based on the monthly charge set forth in the Calgary Energy Tolling Agreement to the extent collectable. On December 20, 2005, CESCP filed for voluntary reorganization under the CCAA and repudiated the Calgary Energy Centre Tolling Agreement on January 16, 2006. The Partnership collected all 2005 toll payments, except for tolling revenue of $3.0 million relating to the period of December 1 to December 20, 2005, which has not been recognized as revenue in these financial statements.

Electricity revenue is also recognized pursuant to the Alstom Settlement Agreement, where the Partnership records revenue based on equivalent operating hours of the plant.

Thermal revenue derived from sales pursuant to the Energy Services Agreement, dated September 29, 1998, between, ICLP, Catalyst Paper Corporation ("Catalyst"), formerly known as Norske Skog Canada Limited and Norske Skog Canada Pulp Operations Limited (the "Island ESA") is recorded at the time steam is delivered (or deliverable) at the rates set out in the Island ESA.

Interest revenue is recorded as earned.

J) Asset Retirement Obligation

The Partnership recognizes a liability for the future retirement obligations associated with property, plant and equipment. These obligations are initially measured at fair value, which is the discounted future cost of the liability. This fair value is capitalized as part of the cost of the related asset and amortized over its useful life. This liability accretes until the date of expected settlement of the retirement obligation.

K) Net Earnings per Unit

Net earnings per unit are calculated by dividing net earnings respectively, by the weighted average number of units outstanding. There are no other dilutive elements.

L) Foreign Currency

All monetary assets and liabilities denominated in foreign currency are translated into Canadian currency at period-end exchange rates, whereas non-monetary assets and liabilities are translated at the historical rates in effect at the transaction date. Any foreign currency gains or losses resulting from such translation is reflected in the consolidated statements of earnings.

m) Measurement Uncertainty

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended.

The carrying value of the Calgary Energy Centre has been tested for impairment utilizing management's best estimate of expected undiscounted future tolling revenues, net of expected undiscounted future operating and maintenance costs. Future tolling revenues have been estimated based on the results of the short-term toll with EPCOR Merchant and Capital L.P. ("EPCOR") entered into on February 16, 2006, combined with discussions with potential tolling counterparties and the Manager's assessment of current market conditions. Operating and maintenance costs have been determined based upon historical results and expected inflation as well as future operating and maintenance requirements. If the actual long-term toll, when established, is lower than the EPCOR short-term toll on an annualized basis, management will reassess impairment and a resultant write-down could occur.

The allowance for the potential impairment of the note receivable (the "Whitby Loan") from Calpine Canada Whitby Holdings Company ("CCWHC") was calculated based upon an estimation of the amount of the Whitby Loan that would be collectible by the Partnership should Calpine Canada Power Ltd. demand repayment of its intercompany loan from CCWHC in its CCAA proceedings and should the Court deny recognition of the subordination between Calpine Canada Power Ltd. and CCWHC. Such estimation was based upon a determination of the underlying value of CCWHC's interest in Whitby Cogeneration L.P. utilizing estimated future cashflows from Whitby Cogeneration L.P. interest and an appropriate discount rate, combined with a pro rata allocation of such value between the Whitby Loan and the intercompany loan on a pari passu basis. Should the Court recognize the subordination, management estimates that the Whitby loan would be fully collectible, based upon management's estimate of future cashflows and the underlying value of CCWHC's interest in Whitby Cogeneration L.P. and the allowance for potential impairment would be reversed at that time.

3. WHITBY LOAN

In 2002, the Partnership obtained a loan receivable (the "Whitby Loan") from Calpine Canada Whitby Holdings Company ("CCWHC"), with a 15 year term to maturity and bearing interest at a rate of 9.07% per annum. CCWHC shall be obligated to repay principal at such time as it receives distributions from Whitby Cogeneration Limited Partnership (or its general partner, 1066917 Ontario Inc.) and in an amount equal to the amount of such distributions less the amount of any interest payments then due or coming due within the next 60 day period and less any reserve necessary to pay taxes expected to be payable on such distributions. Cash received during the year ended December 31, 2005 in the amount of $5.6 million (year ended December 31, 2004 – $2.0 million) associated with the Whitby Loan has been applied to the accrued interest receivable and loan balance consistent with the terms of the loan agreement. As at December 31, 2005, the fair market value of the Whitby Loan, after the allowance for

potential impairment described below, was determined to be approximately $19.4 million (December 31, 2004 – $40.3 million).

CCWHC was not an applicant in the December 20, 2005 filing for CCAA protection. Calpine Canada Power Ltd. has advised the Fund of its understanding that there is an intercompany loan of approximately $32.7 million payable by CCWHC to Calpine Canada Power Ltd., the terms of which have not been formally documented at December 31, 2005. Calpine Canada Power Ltd. also advised that Calpine Canada Power Ltd. has considered the intercompany loan to be subordinated to the Whitby Loan and does not expect repayment of the intercompany loan until the Whitby Loan has been paid in full. Calpine Canada Power Ltd. intends to document this subordination through a written agreement; however, such a written agreement is subject to recognition of the Court under the CCAA process to which Calpine Canada Power Ltd. is subject. An application to the Court is expected in the second quarter of 2006. Should the Court fail to recognize the subordination and should Calpine Canada Power Ltd. demand payment of the intercompany loan as a result of its CCAA proceedings, the timing and ultimate collection of the Whitby Loan would be negatively impacted. Accordingly, an allowance of approximately $16 million against the Whitby Loan has been accrued at December 31, 2005 in the Fund's financial statements for this potential impairment. Should the Court recognize the subordination, the Manager estimates that the Whitby Loan would be fully collectible and the allowance for potential impairment would be reversed at that time.

4. CAPITAL ASSETS

	Cost	Accumulated Depreciation	Net Book Value
As at December 31, 2005			
Land	$ 334	$ –	$ 334
Power generation plants and equipment	632,269	62,680	569,589
	$ 632,603	$ 62,680	$ 569,923
As at December 31, 2004			
Land	$ 334	$ –	$ 334
Power generation plants and equipment	632,077	40,961	591,116
	$ 632,411	$ 40,961	$ 591,450

5. LOAN PAYABLE

During the year ended December 31, 2004, $12.0 million was advanced to the Partnership by the Fund to finance the capital upgrade at the Island Cogeneration Facility. In January 2005, an additional $4.0 million was advanced to complete financing of the capital upgrades. Interest is charged at a rate of 10 basis points over the rate per the Fund's Credit Facility which averaged 4.68% for the year ended December 31, 2005 (year ended December 31, 2004 – 4.34%.) In 2005, with final payment on December 16, 2005, the Partnership repaid $16.0 million to the Fund in full satisfaction of the loan.

6. CHANGE IN NON-CASH WORKING CAPITAL

Change in non-cash working capital	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004
Operating activities:		
Accounts receivable	$ 4,393	$ 5,754
Interest receivable	27	(1,393)
Prepaid expenses	(4,451)	921
Accounts payable and accrued liabilities	2,230	(2,107)
Interest payable	(242)	242
Inventory	(71)	–
	$ 1,886	$ 3,417
Investing activities:		
Accounts payable – accrued capital	$ (44)	$ (323)

7. ASSET RETIREMENT OBLIGATION

The Partnership has recognized a liability for the future retirement obligations associated with the Calgary Energy Centre and Island Cogeneration Facility. This obligation was measured at fair value, which is the discounted future cost of the liability. The liability accretes until the date of expected settlement of the retirement obligation. The Partnership estimates the undiscounted amount of cash required to settle the asset retirement obligation will be approximately $36.6 million, which will be incurred between 2037 and 2038. A discount rate of 8 ½% and assumed inflation of 2 ¼% were used to calculate the carrying value of the asset retirement obligation.

As at December 31, 2005, the Asset Retirement Liability was comprised of the following:

As at December 31, 2003	$ 2,183
Accretion expense	186
As at December 31, 2004	$ 2,369
Accretion expense	201
As at December 31, 2005	$ 2,570

8. PARTNERS' EQUITY

The Partnership is authorized to issue an unlimited number of Class A Priority Units and an unlimited number of Class B Subordinated Units. For the year ended December 31, 2005, the holder of Class A Priority Units, CCT, received the first $0.0798 of Distributable Cash per Class A Priority Unit per month (in addition to certain management and administrative expenses incurred directly by the Fund) on a cumulative basis in priority to any payments on the Class B Subordinated Units. For the year ended December 31, 2005, the holder of Class B Subordinated Units, the Manager, was entitled to receive up to $0.0798 of Distributable Cash per Class B Subordinated Unit per month which amounts accumulate for a fiscal year (and if unpaid at the end of a fiscal year, this entitlement terminates for such fiscal year) following the priority payment of Distributable Cash to the holder of Class A Priority Units. Each year until 2022, the

Distributable Cash entitlements increase at an annual rate of 1%. Holders of Class A Priority Units and Class B Subordinated Units are entitled to share equally, on a class basis, any Distributable Cash in excess of their prior entitlements in any calendar year.

	Class A Units	Class B Units	Total
As at December 31, 2003	$ 484,734	$ 159,774	$ 644,508
Net earnings	45,734	18,278	64,012
Distributions declared	(53,819)	(21,651)	(75,470)
Special distribution – Construction reserve	–	(1,697)	(1,697)
As at December 31, 2004	$ 476,649	$ 154,704	$ 631,353
Net earnings	42,017	16,339	58,356
Distributions declared	(53,039)	(20,830)	(73,869)
As at December 31, 2005	$ 465,627	$ 150,213	$ 615,840

Net earnings per Class A Priority Unit and Class B Subordinated Unit for the year ended December 31, 2005 have been calculated based on a weighted average of 52,001,352 Class A Priority Units (December 31, 2004 – 52,001,352) and 22,286,294 Class B Subordinated Units (December 31, 2004 – 22,286,294).

9. RELATED PARTY TRANSACTIONS

As at December 31, 2005 and December 31, 2004, the Partnership had the following balances receivable from (payable to) related parties in the normal course of business:

	As at Dec. 31, 2005	As at Dec. 31, 2004
Accounts receivable from Calpine Corporation	$ 735	$ 3,664
Accounts receivable from the Fund	216	28
Loan and interest receivable from Calpine Canada Whitby Holdings Company	21,635	39,652
Distributions payable to Calpine Commercial Trust	(4,519)	(3,890)
Distributions payable to the Manager	(1,267)	(1,761)
Accounts payable to Calpine Corporation	(2,593)	(1,613)
Accounts payable to the Fund	(62)	(64)
Loan and interest payable to the Fund	–	(12,235)

The Manager is an indirect wholly-owned subsidiary of Calpine Corporation ("Calpine"). The Manager holds Class B Subordinated Units representing a 30% interest in the Partnership.

The Partnership holds a term loan due from CCWHC, an indirect wholly-owned subsidiary of Calpine, for $19.4 million (December 31, 2004 – $37.4 million), net of a $16.0 million allowance for potential impairment that matures on August 29, 2017, and is entitled to interest income at an annual interest rate of 9.07%. CCWHC shall be obligated to repay principal at such time as it receives distributions from Whitby Cogeneration Limited Partnership (or its general partner, 1066917 Ontario Inc.) in an amount equal to the amount of such distributions less the amount of any interest payments then due or coming due within the next 60 day period and less any reserve necessary to pay taxes expected to be payable on such distributions. Interest earned with respect to this loan amounted to $3.3 million for the year ended December 31, 2005 (2004 – $3.4 million).

The Partnership and CESCP entered into a tolling agreement whereby the Calgary Energy Centre earns revenue through monthly payments, composed of both a fixed and variable portion, received from CESCP in exchange for providing the full operating capacity of the plant. For the year ended December 31, 2005, the Partnership recognized revenues of $53.0 million (year ended December 31, 2004 – $54.4 million) from CESCP related to this agreement. On December 20, 2006, CESCP filed for voluntary reorganization under CCAA and repudiated the Calgary Energy Centre Tolling Agreement on January 16, 2006. The Partnership collected all 2005 toll payments, except for tolling revenue of $3.0 million relating to the period of December 1 to December 20, 2005 which has not been recognized as revenue in these financial statements.

Under the terms of the operating and maintenance agreement between ICPI, ICLP and the Manager, and the operating and maintenance agreement between the Partnership and the Manager, the Manager operates and maintains the Island Cogeneration Facility and the Calgary Energy Centre for the reimbursement of its costs.

Under the Management Agreement, the Manager is responsible for providing and performing management and administrative and other services for the Partnership on a cost reimbursement basis.

10. ALSTOM SETTLEMENT AGREEMENT

On July 9, 2002, Alstom Canada Inc. ("Alstom") pursuant to its obligation under a turnkey design, engineering, procurement and construction contract, agreed to pay buy down amounts totaling $50.0 million to the Partnership over a 10 year period because certain performance targets for the Island Cogeneration Facility were not met. The settlement is fully supported by a banker's demand bond. This amount will be settled whereby the Partnership will record revenue as an offset to amounts otherwise payable for capital and operating expenses. Settlement revenue of $5.1 million (2004 – $4.3 million), has been recognized within electricity, capacity and thermal revenue in the consolidated financial statements of the Partnership for the year ended December 31, 2005. At December 31, 2005, the remaining amount due from Alstom was $28.7 million (2004 – $34.1 million) which will be earned over the remaining settlement period. The amount recognized is dependent on the actual operating hours of the Plant. As such it will vary annually depending on Plant performance.

11. ECONOMIC DEPENDENCE, OTHER BUSINESS RISKS AND CONTINGENCIES

Electricity sales pursuant to the Island EPA with BC Hydro accounted for 33% of total revenue for the year ended December 31, 2005 (2004 – 28%). Approximately 54% of the period end accounts receivable balance was due from BC Hydro relating to electricity sales (2004 – 36%).

Revenue pursuant to the Calgary Energy Tolling Agreement with CESCP accounted for 46% of total revenue for the year ended December 31, 2005 (2004 – 52%). Approximately 10% of the period ended December 31, 2005 accounts receivable balance was due from CESCP relating to revenue from the Tolling Agreement (2004 – 34%).

Contract Performance The amount of Distributable Cash of the Partnership available for distribution to Unitholders is highly dependent upon parties to certain agreements fulfilling their contractual obligations to the Partnership or its affiliates. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions by the Partnership. On January 16, 2006 CESCP repudiated the Tolling Agreement and subsequently paid the Partnership tolling revenues applicable to the period from the date of filing for CCAA protection to the date of repudiation, but did not pay the December 1 to December 20, 2005 toll.

The Partnership has entered into a short-term tolling arrangement with EPCOR which will provide tolling revenue until June 30, 2006 at rates significantly lower than the repudiated contract, reflecting current Alberta market conditions. This reduction in tolling revenue of the Partnership significantly reduces future cash available to make distributions to the limited partners of the Partnership. The Partnership and Manager have commenced a process to re-market the generation capacity of the Calgary Energy Centre on a long-term basis. If, for any reason, the Partnership and Manager are unable to re-contract the tolling capacity or re-contract it at rates significantly lower than the EPCOR short-term toll, Distributable Cash of the Partnership will decline further. In addition, the carrying value of the Calgary Energy centre may be impaired and a resultant write-down could occur.

Commodity Price Risk Through the use of long-term contracts, the Partnership has mitigated short-term exposure to various commodity price risks. Under tolling arrangements established with customers, revenues are earned through monthly payments received from the customer in exchange for providing the full operating capacity of the plant. The customer is further responsible for providing all gas required to generate that electricity. This type of arrangement effectively eliminates commodity price risk and establishes a stable cash flow for the Partnership. If any of these contracts are terminated the Partnership would be exposed to commodity price risk and Distributable Cash of the Partnership could decline.

Interest Rate and Loan Default Risk The Partnership has a loan to CCWHC, which holds a 50% partnership interest in the Whitby Cogeneration Facility. The fair value of the loan will change dependent on the fluctuation of market interest rates. Due to the fixed nature of the loan arrangement, fluctuations in cash flow are eliminated. The Partnership is exposed to default risk on this loan as any defaults on the loan may have an adverse effect on distributable cash of the Partnership. CCWHC was not an applicant in the December 20, 2005 filing for CCAA protection. Calpine Canada Power Ltd. has advised the Fund of its understanding that there is an intercompany loan of approximately $32.7 million payable by CCWHC to Calpine Canada Power Ltd., the terms of which have not been formally documented at December 31, 2005. Calpine Canada Power Ltd. also advised that Calpine Canada Power Ltd. has considered the intercompany loan to be subordinated to the Whitby Loan and does not expect repayment of the intercompany loan until the Whitby Loan has been paid in full. Calpine Canada Power Ltd. intends to document this subordination through a written agreement; however, such a written agreement is subject to recognition of the Court under the CCAA process to which Calpine Canada Power Ltd. is subject. An application to the Court is expected in the second quarter of

2006. Should the Court fail to recognize the subordination and should Calpine Canada Power Ltd. demand payment of the intercompany loan as a result of its CCAA proceedings, the timing and ultimate collection of the Whitby Loan would be negatively impacted. Accordingly, an allowance of approximately $16 million against the Whitby Loan has been accrued at December 31, 2005 in the Fund's financial statements for this potential impairment. Should the Court recognize the subordination, the Manager estimates that the Whitby Loan would be fully collectible and the allowance for potential impairment would be reversed at that time.

Credit Risk The Partnership is exposed to credit-related losses in the event of non-performance by counterparties. The Fund deals with certain counterparties that are currently in bankruptcy proceedings, including Calpine, the Manager and CESCP. On January 16, 2006, CESCP repudiated the Calgary Energy Centre Tolling Agreement and the Partnership did not receive the December 1 to December 20 tolling revenues. The Partnership has not had any further non-performance by these counterparties but continues to monitor credit risk on an ongoing basis.

Foreign Exchange Risk The Partnership is exposed to foreign exchange risk on US dollar denominated cash that it holds. The Partnership maintains a portion of the maintenance reserve in US currency in an effort to mitigate foreign exchange risk associated with satisfying future obligations which are settled in US currency under the LTSA for the Calgary Energy Centre.

		Payments due by period					
Contractual Obligations	Total	2006	2007	2008	2009	2010	2011 and Beyond
Calgary Energy Centre – LTSA (US$)	$29,817	$2,580	$4,754	$2,580	$ 406	$ 402	$19,095
Island Cogeneration Facility – Land Lease (CDN$)	960	30	30	30	30	30	810
Asset retirement liability Calpine Power, L.P (CDN$)	36,612	–	–	–	–	–	36,612

As part of normal operations, the Partnership and its wholly-owned subsidiaries and partnerships enter a variety of commitments under normal business terms with unrelated third parties.

Island Electricity Purchase Agreement:

The sale of electricity from the Island Cogeneration Facility to BC Hydro is governed by the Island EPA dated September 29, 1998 between ICLP and BC Hydro, as amended. The initial term of the Island EPA expires on April 12, 2022. The Island EPA functions as a tolling arrangement, under which BC Hydro delivers all fuel required to operate the Facility and is, in turn, obligated to pay for all electricity generated or deemed to have been made available by the Island Cogeneration Facility at the delivery point, subject to a maximum of 285 MW.

Energy Services Agreement with Catalyst:

Under the Island ESA dated September 29, 1998, between ICLP and Catalyst, ICLP is obligated to provide steam from the Island Cogeneration Facility to Catalyst for use in the Elk Falls Mill. Catalyst is obligated to request, accept and pay for a minimum annual amount of steam and ICLP is obligated to deliver the requested steam, subject to annual and hourly maximum amounts. The initial term of the Island ESA expires on April 12, 2022, and is renewable by Catalyst for up to an additional ten years if one or more third parties agree to purchase all the electricity the Island Cogeneration Facility can produce through the renewal period and the Island site lease and the mill services agreement (the "Island MSA") are renewed.

Mill Services Agreement with Catalyst:

Catalyst provides ICLP with certain services pursuant to the Island MSA dated September 29, 1998. The initial term of the Island MSA expires on April 12, 2022, and is renewable by ICLP for up to an additional ten years if certain conditions are met. The Island MSA terminates automatically if the Island ESA is terminated prior to April 12, 2022, and may be terminated by ICLP if the Island EPA is terminated.

Island Maintenance Agreement:

Under a maintenance agreement ("Island Maintenance Agreement") dated November 24, 1997, between ICPI and Alstom, Alstom supplies various parts and services in connection with maintenance of certain equipment located at the Island Cogeneration Facility. ICPI pays a monthly fee to Alstom under this agreement of which there is a fixed and variable component. The Island Maintenance Agreement terminates upon completion of a specified inspection which is scheduled to occur after approximately 12 years of operations.

Calgary Energy Centre Maintenance Agreement:

Under a maintenance agreement ("Calgary Energy Centre Maintenance Agreement") dated March 31, 2003, between the Partnership and Siemens Westinghouse ("Siemens"), Siemens supplies various parts and services in connection with maintenance of certain equipment located at the Calgary Energy Centre. The Partnership pays a monthly fee to Siemens under this agreement. The Calgary Energy Centre Maintenance Agreement terminates in 2016 or upon the second major inspection of the Combustion Turbine, whichever comes first.

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to be consistent with the current year's presentation.

13. SUBSEQUENT EVENTS

CESCP did not make its December 2005 toll payment as required by the Tolling Agreement on January 16, 2006 and advised on that date that it had repudiated the Tolling Agreement.

On January 30, 2006, the Fund announced that it was in dispute with the Manager and that a Court proceeding would be heard in conjuncture with an application by the Manager and certain of its affiliates seeking a declaration that the Manager was exclusively entitled to re-market the tolling capacity of the Calgary Energy Centre. The Manager and these affiliates initiated their Court proceedings after the independent Trustees and the directors of the general partner of the Partnership (collectively, the "Independents") advised the Manager that, in their view, the Manager was in a position of material conflict in connection with the marketing of tolling capacity and that the Independents should control the marketing process. The Independents also alleged that certain conduct by the Manager was in "fundamental breach" of its obligations under the Fund's management agreements. The Manager had a contrary view as to whether a material conflict existed and the appropriateness of its conduct. The Manager and these affiliates also sought a declaration that they had the exclusive right to pursue all avenues to restructure their business, including development and implementation of a Court approved marketing process to sell some or all of their property including a subordinated interest in the Partnership owned by the Manager and management agreements whereby the Manager has agreed to manage and administer the Fund.

On February 6, 2006, a verbal decision of the Court approved a Protocol providing the Manager with the authority to negotiate both short and long-term tolling arrangements for the Calgary Energy Centre, subject to supervision by the Court appointed monitor and approval by the Independents. The Protocol further provides that any process by the Manager seeking to dispose of the contractual management rights and subordinated interest in the partnership will be subject to further order of the Court.

There is no certainty that the Manager will implement a restructuring or other disposition transaction involving its management agreements with the Fund and subordinated ownership interest in the Partnership, nor is it possible to predict the timing or impact of any such transaction, should one evolve.

On February 15, 2006, CESCP paid tolling revenues to the Partnership applicable to the period from the date of filing for CCAA protection, December 20, 2005, to the date of repudiation. On February 16, 2006, the Partnership announced it had commenced a short-term tolling arrangement with EPCOR which will provide tolling revenue to the Partnership until June 30, 2006. The amount of the toll was significantly lower than the Tolling Agreement reflecting current Alberta market conditions. This reduction in tolling revenue of the Partnership significantly reduces future cash available to make distributions to the limited partners of the Partnership. The Partnership and Manager have commenced a process to re-market the generation capacity of the Calgary Energy Centre on a long-term basis.

On April 10, 2006, the Court ordered that a claims resolution process be commenced in relation to the affected Calpine subsidiaries in CCAA proceedings. The Partnership will submit a claim as a consequence of the repudiation on January 16, 2006 by a subsidiary of Calpine of the Tolling Agreement with respect to the Calgary Energy Centre.

Glossary

Alstom means Alstom Canada Inc.

BC Hydro means British Columbia Hydro and Power Authority

Calgary Energy Centre means a natural gas fired combined cycle plant located in Calgary, Alberta with a capacity of 300 MW, consisting of 250 MW of base capacity plus 50 MW of peaking capacity owned by CECLP

Calgary Energy Centre Maintenance Agreement means the maintenance agreement between CECGP and Siemens

Calgary Energy O&M Agreement means the operating and maintenance agreement between CECGP, CECLP and the Manager

Calpine means Calpine Corporation.

Calpine King City means Calpine King City Cogen, LLC

CCT means Calpine Commercial Trust

CCWHC means Calpine Canada Whitby Holdings Company

CECGP means Calgary Energy Centre ULC, the general partner of CECLP

CECLP means the Calgary Energy Centre Limited Partnership

Calgary Energy Tolling Agreement means the tolling agreement between CESCP and CECLP

CESCP means Calpine Energy Services Canada Partnership

CICA means the Canadian Institute of Chartered Accountants

Catalyst means Catalyst Paper Corporation, formerly known as Norske Skog

Class A Priority Units means the units of the Partnership held by the Fund

Class B Subordinated Units means the units of the Partnership held by the Manager

Credit Facility means the $120 million term credit facility held by CCT

Distributable Cash means the amount of cash distributed to unitholders

Distribution Levelization Reserve means the reserve established by the Fund to levelize distributions paid to unitholders

EOH means equivalent operating hour

Fund means the Calpine Power Income Fund

ICLP means Calpine Island Cogeneration Limited Partnership

ICPI means Calpine Island Cogeneration Project Inc.

Island EPA means the electricity purchase agreement between BC Hydro and ICPI as general partner of ICLP

Island ESA means the energy services agreement between ICLP, Norske Skog and Norske Skog Canada Pulp Operations Limited

Island Facility means a 240 MW combined cycle cogeneration plant located at Duncan Bay, near Campbell River on Vancouver Island, British Columbia owned by ICLP

Island Maintenance Agreement means the maintenance agreement between ICPI and Alstom

Island MSA means the mill services agreement between ICPI as general partner of ICLP and Norske Skog

Island O&M Agreement means the operating and maintenance agreement between ICLP, ICPI and the Manager

KCLP means King City LP

King City Facility means a 120 MW natural gas fired, combined cycle cogeneration facility located in King City, California owned by KCLP

King City Loan means the non-recourse loan facility totaling US$82 million provided by a third party made as part of the King City Transaction

King City PPA means the power purchase agreement for long-term energy and capacity

King City SSA means the Calpine King City Steam Sale Agreement

King City Transaction means the transaction where the Fund acquired an interest in the King City Facility and made the Manager Loan

LTSA means long-term service agreement

Major Maintenance means scheduled major overhauls and major repairs of the facilities required to be performed

Manager means Calpine Canada Power Ltd.

Manager Loan means the $48.0 million ($53.4 million face value) loan by the Fund to the Manager as part of the King City Transaction

Norske Skog means Norske Skog Canada Limited

O&M Agreement means the Island O&M and the Calgary Energy O&M

Partnership means Calpine Power, L.P.

QF means Qualifying Facility

Siemens means Siemens Westinghouse

Whitby Cogeneration Facility means a 50 MW natural gas fired cogeneration facility located in Whitby, Ontario, owned indirectly 50% by CCWH

Whitby Loan means the loan made by the Partnership to CCWH

Corporate Information

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Transfer Agent

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Calgary, Alberta

Auditors

Deloitte & Touche LLP
Calgary, Alberta

Legal Counsel

McCarthy Tétrault
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Stock Exchange

The Toronto Stock Exchange
Trading Symbols: CF.UN

Whistleblower Hotline
Confidence Line
1-800-661-9675

Board of Trustees

Management of Calpine Canada Power Ltd.

Toby Austin
President & Chief Executive Officer
Calpine Canada Power Ltd.

Geoffrey Krause
Vice President & Chief Financial Officer
Calpine Canada Power Ltd.

CALPINE POWER INCOME FUND
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